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Central and Eastern Europe

Industry Research – Insurance

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Authors:

Hector Alvarez
Rating Associate

Ilya Makunin
Rating Analyst

For further information contact:
Rating-Agentur Expert RA GmbH
Walter-Kolb-Strasse 9-11,
60594 Frankfurt am Main, Germany
+49 (69) 3085-45-00
E-mail: info@raexpert.eu
www.raexpert.eu

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CEE Insurance Sector Metrics 2017

	Penetration, %	Density, USD	ROE, %	ROA, %	GWP, y-o-y % growth	Claims, y-o-y % growth
Hungary	2,6	376,5	22,6	2,3	7,0	9,8
Czech Republic	3,0	660,8	10,6	1,6	2,5	-0,9
Slovakia	2,6	399,1	14,5	2,5	9,3	3,2
Slovenia	4,8	1183	8,6	1,7	4,9	9,4
Latvia	1,7	284,8	10,6	2,4	18,7	14,1
Estonia	1,9	391,4	NA	NA	10,1	3,3
Lithuania	1,9	336,5	10,5	2,1	11,7	19,0
Poland	3,1	434,7	15,6	2,9	11,3	8,6
Belarus	1,0	55,3	9,3	4,4f	4,4	-4,1

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

In this report we make an analysis of the insurance industry in selected countries from the CEE region. The selected countries are: Hungary, Czech Republic, Slovakia, Slovenia, Latvia, Estonia, Lithuania, Poland (form the EU part of the sample) and Belarus.

1. SUMMARY

The insurance market plays an important role in the economy of countries from the Central and Eastern Europe (CEE) region. However, the individual countries' insurance industry development is far from being homogeneous, as it is to a large extent linked to the dynamics of economic activity. The CEE insurance industry is dominated by the non-life insurance sector and more specifically by the motor segment. Life insurance plays a less significant role and suffers from a general lack of awareness about the type of the sector and lack of confidence in the financial markets as a whole. Overall, the region's insurance markets are expected to continue developing; however, we anticipate that it will remain hindered by the countries' high exposure to external factors and the still low awareness about insurance and its products. The industries will be supported by technological advancement i.e. digitalization, as well as risk position improvement of most insurers, as a result of Solvency II. Each individual market will be driven by the following dynamics:

- **Hungary:** The life insurance sector gross written premiums (GWPs) have grown by 5% y-o-y in 2017 (see table 4.6) and is expected to continue growing supported by the new transparency regulation, tax

incentives and strong macroeconomic growth; however, high investment returns are expected to be contained by the low-interest rate environment. We expect the non-life sector to remain profitable, as the overall net profit of the sector grew by 9,9% in 2017 alone; however, the sector will be challenged by levelled prices, increased claims and a reduction in new car loans.

- **Czech Republic:** Life insurance premiums in Czech Republic have declined by around 4% y-o-y in 2017 (see table 4.6) and we expect the sector to continue struggling due to the ongoing presence of low-yields and an unfavorable fiscal environment for policyholders. The non-life GWPs have expanded by 6,5% y-o-y in 2017 (see table 4.8) and are expected to keep growing, given the positive macroeconomic outlook. Moreover, the sector is anticipated to continue positing positive profitability figures with combined loss ratios below 100%.
- **Slovakia:** The life insurance sector of Slovakia is seen slightly riskier than that of its peers due to the low amount of unit-linked products, at 22,3% of the market in 2017. However, we expect this to reverse, once unit-linked products become more popular and large companies with broader offering take over the market. Sectoral profits are expected to decline if the newly proposed tax plan is applied to life insurance. The non-life GWPs y-o-y growth rate was rather high in 2017 at 6,9% (see table 4.8); however, it is expected to be contained by the effect of the new taxation system. Current profitability levels of the non-life insurance are solid, therefore no big price hikes are expected in the mid-term.
- **Slovenia:** The life insurance premiums have decreased sharply by 10,7% y-o-y back in 2016, recovering strongly in 2017 as evidenced by the 16,4% y-o-y GWP growth rate (see table 4.6). The volatility was caused mainly by the reduction in premiums for unit-linked products and several maturing policies. We expect the sector to continue being affected by maturing policies and challenging market conditions; nevertheless, positive economic outlook in the mid-term perspective could push the sector forward. Non-life insurance GWPs grew at 1,3% y-o-y in 2017 (see table 4.8). Future growth is expected to be supported by favorable macroeconomic expectations. The non-technical result will continue to be limited by the market conditions.
- **Latvia:** The life insurance market in Latvia remained relatively undeveloped, as evidenced by a market density of just USD 70,3 in 2017. Despite a rather challenging environment, the annuities are expected to continue the positive growing trend, as they provide a beneficial substitute to the refunding options. The non-life sector GWPs grew by 18,8% y-o-y in 2017 (see table 4.8) and is anticipated to remain profitable and solid in the mid-term.

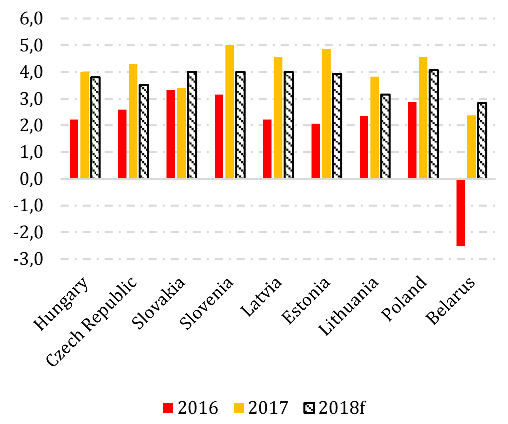
- **Estonia:** The life insurance sector remains subdued, as its Baltic peers, evidenced by a market density of only USD 83,6. Despite the state of the financial market, and long-term investment tax break removal, we expect continued growth in the sector. The non-life sector GWPs grew by 11,1% y-o-y in 2017 (see table 4.8) and are expected to grow further in the mid-term. The sector is anticipated to post positive profit figures given the combination of a high market concertation (top-5 companies accounted for more than 85% of non-life sector's GWP in 2017) and solid market outlooks for the top insurers.

- **Lithuania:** Despite the decrease of the life insurance GWPs in 2017 by 6,2% y-o-y (see table 4.6), mainly due to a one-off effect of expiring contracts written before 2003, we expect the life sector to resume growth in 2018 given the fact that the economy and wages are growing. The anticipated growth could however be hurt by restrictions on tax reliefs. The non-life sector premiums grew by 21,2% y-o-y in 2017 (highest result relative to the selected regional peers) (see table 4.8) and is expected to continue in an upward trend. The sector's profitability will remain dependent on the few large companies due to the high concentration in the sector – the top-4 companies accounted for more than 73% of the non-life sector's GWPs in 2017.

- **Poland:** The Poland's life insurance sector grew by 3% y-o-y in 2017 (see table 4.6), supported by still favorable macroeconomic conditions. In our view, the dominance of unit-linked products contributes to the capital requirement and investment risk reduction for the insurers. However, as in all European markets, the still low-interest rate environment will prevent high investment returns on these products for policyholders. We expect a moderate growth of the non-life sector (non-life GWPs grew by 17,4% y-o-y in 2017) (see table 4.8), which will remain dominated by the concentrated motor insurance segment. Overall we expect the non-life sector to be profitable with combined ratios below 100%.

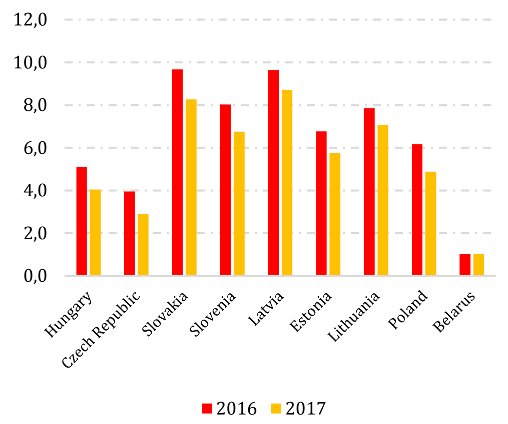
- **Belarus:** The Belarusian life insurance sector, despite the recent positive dynamics (in 2017 life GWPs grew by 18,6% y-o-y) (see table 4.6), remains relatively out of demand in the market. Nevertheless, the development capacity of the segment is high due to increasing financial literacy and some fiscal incentives and could be even higher if the existing legislation did not hamper the development of inter-segment competition. Albeit non-life sector GWP growing at a much lower rate of 3% y-o-y in 2017 (as compared to 17,9% in 2016 and 12,5% in 2015) (see table 4.8), we anticipate a continued moderate GWP growth in the sector on the backdrop of the local and international economic environment stabilization. Further development of the segment and insurance market as a whole will depend on how well and effective the sector's liberalization plans will be carried out.

Graph 2.1: Real GDP, % growth



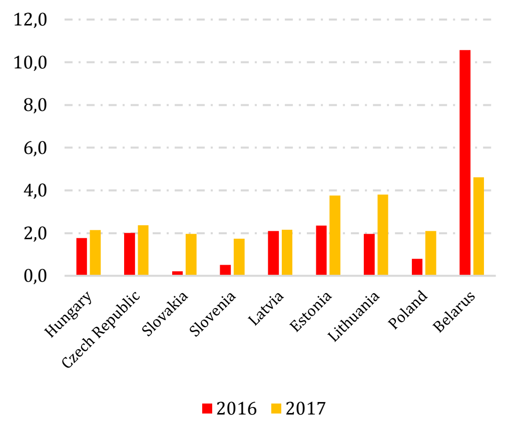
Source: RAEX (Europe) calculations based on data from the IMF

Graph 2.2: Unemployment, %



Source: RAEX (Europe) calculations based on data from the IMF

Graph 2.3: Inflation, %



Source: RAEX (Europe) calculations based on data from the IMF

2. GENERAL OVERVIEW

The selected CEE countries have a number of particular characteristics and similarities which can be used to narrow them down to sub-groups in terms of their relationship, economic models, financial systems and external exposures. On the one hand, we have the Baltics (Latvia, Lithuania and Estonia) which heavily depend on the European Union (EU) and, at a lesser extent, on Russia as well. This block is also influenced by the Scandinavian countries, especially in the financial sector. On the other hand, Hungary, Czech Republic, Poland and Slovakia share similar financial market depths and development. Even though the first three of these countries depend on the EU market to a large extent, the fact that they do not belong to the Eurozone allows them to adjust the monetary policy to external and internal shocks, ultimately contributing to further stability in the financial sector. In contrast to the aforementioned groups, Slovenia is individually characterized by a small and developed economy, and has the strongest and deepest insurance sector among the selected countries. Finally, Belarus is the most distinct country as its economy heavily relies on Russia, is exposed to different risks than the rest of the selected CEE countries and does not follow the Solvency II directive.

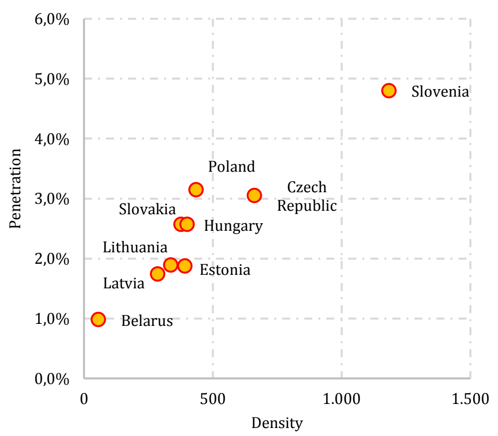
In 2017 economic growth was positive overall in the group of selected countries as the average real GDP growth for these economies was higher than in 2016 at 4,09% (see graph 2.1). As a result, unemployment rates in the whole region went down. On average, the unemployment rate in the selected CEE countries was reduced by 1p.p. as compared to 2016 (see graph 2.2). This translated directly in a better overall performance of the individual insurance sectors in the area. Moreover, the inflation rate was at moderate levels and fairly stable in most of the selected countries with the exception of Belarus, which continues to have high and volatile inflation levels (see graph 2.3). Price stability is an important factor in regard to insurance, especially in the life insurance segment since it encourages long-term investments. However, many of the selected countries have experienced some sort of political instability, which could potentially hinder overall investments in the region and, thus, hurt the operating environment of the insurers as growth in GWPs is correlated with economic activity dynamics.

Table 2.1: Main macroeconomic indicators

	Real GDP growth			Inflation		Unemployment	
	2016	2017	2018f	2016	2017	2016	2017
Hungary	2,2%	4,0%	3,8%	1,8%	2,1%	5,1%	4,0%
Czech Republic	2,6%	4,3%	3,5%	2,0%	2,4%	3,9%	2,9%
Slovakia	3,3%	3,4%	4,0%	0,2%	2,0%	9,7%	8,3%
Slovenia	3,1%	5,0%	4,0%	0,5%	1,7%	8,0%	6,8%
Latvia	2,2%	4,5%	4,0%	2,1%	2,2%	9,6%	8,7%
Estonia	2,1%	4,9%	3,9%	2,4%	3,8%	6,8%	5,8%
Lithuania	2,3%	3,8%	3,2%	2,0%	3,8%	7,9%	7,1%
Poland	2,9%	4,6%	4,1%	0,8%	2,1%	6,2%	4,9%
Belarus	-2,5%	2,4%	2,8%	10,6%	4,6%	1,0%	1,0%

Source: RAEX (Europe) calculations based on data from the IMF

Graph 2.4: Penetration and density in 2017



Source: RAEX (Europe) calculations based on data from the IMF, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association and Ministry of Finance of the Republic of Belarus

All of these countries remain exposed to external risks. However, Belarus is the most vulnerable country as its investments and trade largely depend on economic developments in Russia. The Baltic countries alongside Slovenia and Slovakia also rely heavily on external demand from the EU in order to keep positive economic activity. The Baltics, also have a great share of trade with Russia. Even though the Czech Republic, Hungary and Poland also rely heavily on European trade partners, we can consider them to be less vulnerable to these kind of shocks since their economies are slightly less concentrated. In summary, the overall high exposure of the region to these externalities could make a country's economy volatile and unstable which, in our view, represents a strong source of distress for the insurance market of the region as a whole.

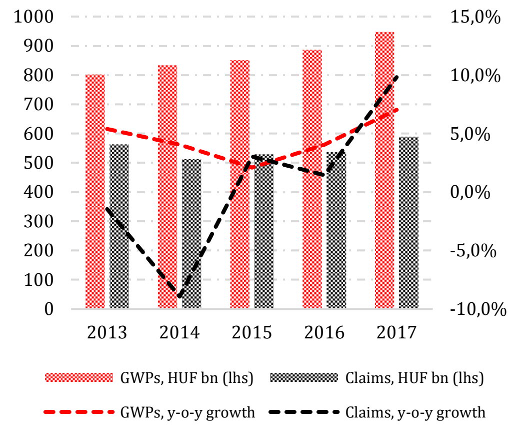
The depth and development levels of the selected CEEs are contrasting; however, it can be fairly said that they are generally low as compared to other European and developed countries. Slovenia is the country with the deepest and most developed insurance market. The Czech Republic, Hungary, Poland and Slovakia are in the second group followed by the Baltic countries which have lower levels of insurance utilization. Belarus, in turn, has a poorly developed insurance market as compared to the rest of the countries (see graph 2.4). Overall, the whole region suffers from low awareness of the insurance market and the product offering. While this represents a very large opportunity for growth, it is currently dragging the development stance of the market.

The CEE insurance market is dominated by non-life insurance, and more specifically by motor insurance. Life insurance is not very popular, which could be explained by the general lack of awareness about the type of life insurance product offering and is a clear reflection of the countries' development and wealth levels, as well as the population's confidence in the financial markets as life insurance products are usually savings products where people build wealth for retirement or patrimony. The ratio of life to non-life insurance in the selected countries was at 38:62 as of the end of 2017.

Going forward, we expect digitalization to become a vital part of the insurance industry as it could be implemented in every step of the insurance process, from underwriting activities to claim management providing effectiveness and efficiency to the insurer's operations. Even though, the market is currently facing a huge challenge to adopt the technology needed, many companies are already rearranging their strategies in order to cope with the technological needs demanded by the market.

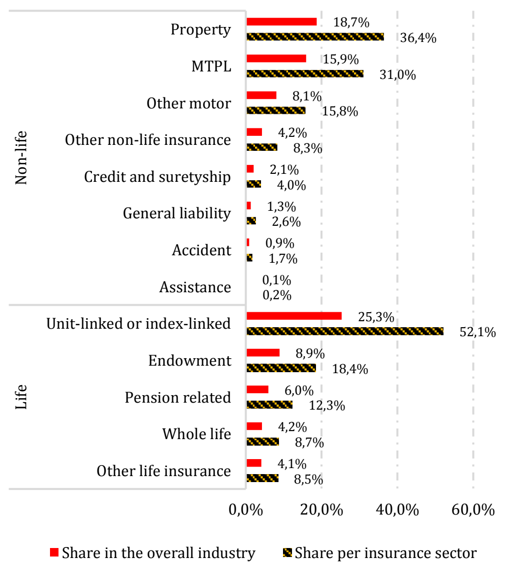
In light of the new Solvency II directive, all countries maintain favorable levels of solvency capital requirement. Belarus does not follow the Solvency II directive; however the capital adequacy levels according to the local regulation have also been acceptable. We anticipate an improvement in the general capitalization of the companies as the new method to calculate the margins takes into account the risk attached to each type of asset. As a result, a more prudent asset portfolio is required to comply with the requirements. In general, we expect the Solvency II directive to improve the risk position of most insurers in the CEE region.

Graph 3.1: HU – GWPs vs Claims



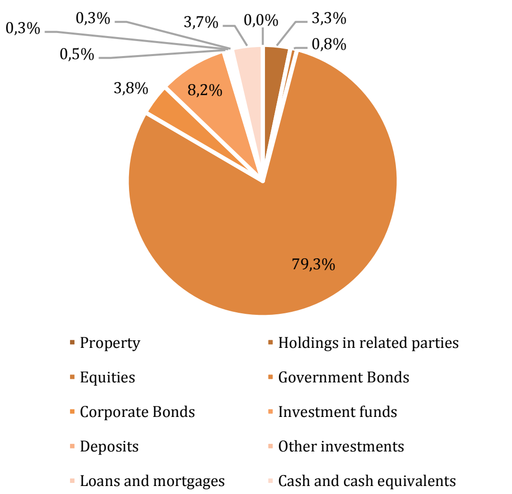
Source: RAEX (Europe) calculations based on data from the Hungarian National Bank

Graph 3.2: HU – Types of insurance, 2017



Source: RAEX (Europe) calculations based on data from the Hungarian National Bank

Graph 3.3: HU – Investment allocation, 3Q 2017



Source: RAEX (Europe) calculations based on data from EIOPA

3. COUNTRY SNAPSHOT

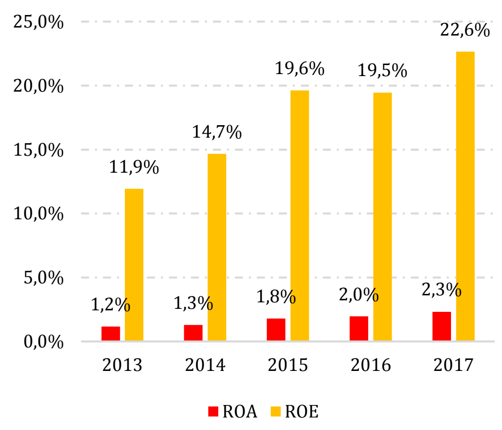
3.1 HUNGARY

The Hungarian economy has been stable for the past years growing at a pace of 4% in 2017 as a result of improved domestic demand. Unemployment continued to decrease and stood at 4% in the same period. Moreover, inflation has slightly increased but was acceptable at 2,1% by year-end 2017. Despite the acceptable macroeconomic figures, the political climate in the country arising from ideological clashes between the Hungarian government and the EU could interrupt the flow of funds from the European block into the country. However, we expect continued stability in the country after Viktor Orban's recent reelection; meaning that certainty exists over the ongoing policies. All of these factors show a slightly favorable **operating environment** for the insurers operating in the country.

The **insurance market** stance is moderately developed with insurance penetration and density at 2,6% and USD 376 in 2017 respectively; both numbers are around the average of the selected CEE country peers (see tables 4.1 and 4.2). As of end-2017, Hungary had 25 insurance companies out of which 7 were life insurers, 9 non-life insurers and 9 composite insurers. Moreover, gross written premiums were HUF 948 bn in 2017 growing at an average pace of around 4,5% since 2013 and grew by 7% y-o-y alone in 2017, which is lower than the average among its peers (see table 4.4). However, claims have grown at an average rate of 1,3% since 2013 and grew by 9,8% in 2017 outpacing the increase in GWPs (see graph 3.1). The insurance sector concentration in the top-5 and top-10 companies was 57% and 81% respectively in 2016 where the three largest companies were Allianz, Generali and Groupama with 14,2%, 13,7%, 10,4% and 10,3% of the market share respectively. The concentration has been quite stable and below average as compared to its peers (see table 4.18). The three main types of insurance in the market as of 2017 were unit-linked life insurance (25,3% market share), property insurance (18,7% market share) and MTPL insurance (15,9% market share) (see graph 3.2) all of which presented an increase in GWPs as compared to 2016, especially MTPL with a 14,8% hike.

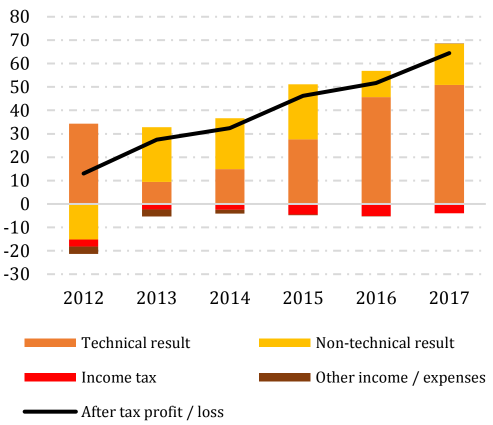
The **investment environment** remains quite limited due to the low yield environment, especially in the major sovereign bonds, which are the main investment focus of Hungarian insurers. As of 3Q 2017 around 79% of the investments from Hungarian insurers were allocated to government bonds, and around 56% in Hungarian government securities, thus, a scenario of high investment returns still appears unlikely (see graph 3.3). However, the investment allocation in local government bonds secures cash flows and stabilizes capitalization figures since the insurance operating currency and the investment income currency are the same (HUF). We expect the investment atmosphere to remain subdued given

Graph 3.4: HU – Profitability metrics



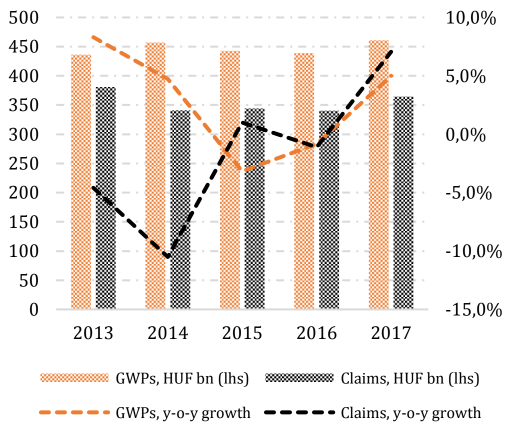
Source: RAEX (Europe) calculations based on data from the Hungarian National Bank

Graph 3.5: HU – P&L composition, HUF bn



Source: RAEX (Europe) calculations based on data from the Hungarian National Bank

Graph 3.6: HU – GWPs vs Claims: Life



Source: RAEX (Europe) calculations based on data from the Hungarian National Bank

the lingering low rates in the market and the decision of the Central Bank to keep them low.

We have observed increasing levels of **profitability** in the sector as a whole for the past seven years. ROA and ROE have been consistently increasing achieving figures of up to 2,3% and 22,6% respectively in 2017 (see graph 3.4). The above was driven by important increases in the technical result and, albeit at a lower extent, positive investment returns (see graph 3.5).

The Hungarian insurance market has favorable **capitalization** figures. The Solvency II directive was introduced in 2016 and the market as a whole posted a solvency requirement ratio of 216% in 2016 and 226% in 2017.

In regard to **M&A activity**, the VIENNA Insurance Group recently completed the merger of the Hungarian VIG companies.

3.1.1 Life Insurance

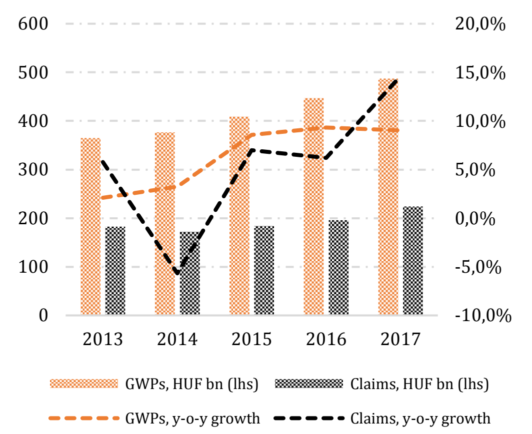
The life insurance sector's GWPs hiked by 5% while gross claims grew by 7,1% in 2017 as compared to a year before (see graph 3.6). The main life product by far was the unit-linked offering accounting for 52,1% of the overall life segment followed by endowment products which represented 18,4% of the market (see graph 3.2). These types of insurance continued to grow in 2017 by 3,4% and 4,2% respectively. We attribute the growth mainly to the tax credit issued a few years back and new regulation on unit-linked products.

In our view, the dominance of unit-linked products reduces capital requirements and investment risk for the insurers. Going forward, we expect the pension-related segments of life insurance to grow in line with the strong macroeconomic outlook for the country alongside the already mentioned tax incentives and the new regulation on the transparency of unit-linked products introduced last year. However, as in all Europe, the still low-interest rate environment will prevent high investment returns on these products for policyholders. Moreover, the gradual introduction of the ethical concepts for life insurance continue to be implemented. This regulation is aimed at increasing the transparency of the product offering and to make these easily comparable. The regulation already had an effect on the amount of products offered as the products with higher prices were phased out.

3.1.2 Non-life Insurance

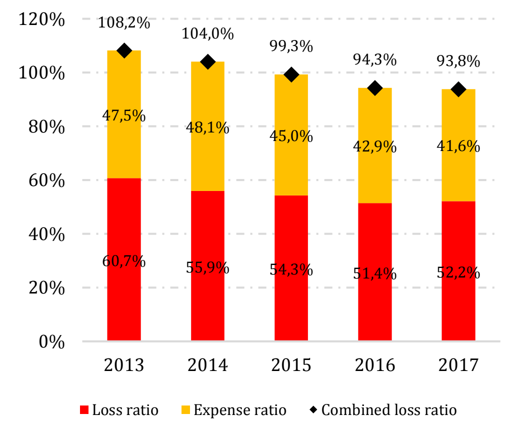
The overall increase in non-life insurance GWPs in 2017 was 9% and the sector has been growing at an increasingly faster pace for the past five years; nonetheless, claims grew by 14,6% in the same period (see graph 3.7). For the largest non-life segments, property insurance led the market in terms of GWPs with a share of 36,4% followed by MTPL and other motor

Graph 3.7: HU – GWPs vs Claims: Non-life



Source: RAEX (Europe) calculations based on data from the Hungarian National Bank

Graph 3.8: HU – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from the Hungarian National Bank

insurance with a market share of 31% and 15,8% and with a growth of 14,8% and 6,7% respectively. The technical result overall was positive as the loss ratio and expense ratio were 52,2% and 41,6% respectively for a combined loss ratio of 93,8% (see graph 3.8).

We expect the competition in the vehicle insurance sector to keep premium prices flat. This, combined with increased claims and a reduction in outstanding car loans, will challenge these insurance segments. In general, we anticipate the non-life sector to remain profitable with combined ratios below 100%.

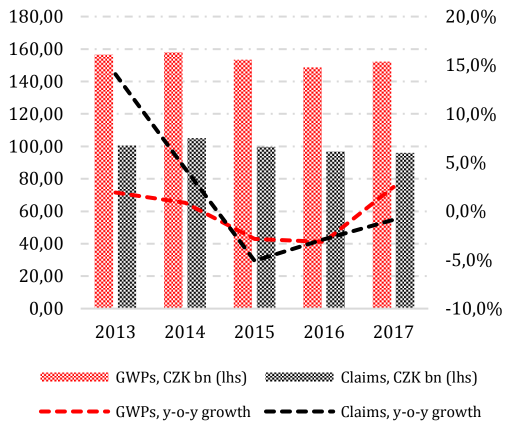
Market leaders

Table 3.1: Market leaders' indicators for 2016, EUR m

	GWP	GWP growth	Claims	ROE	ROA	SCR
Allianz	424,7	9,2%	227,1	27,3%	4,1%	155,1%
Generali	263,8	4,4%	93,7	NA	NA	321,1%
Groupama	314,7	NA	194,5	NA	NA	196,0%

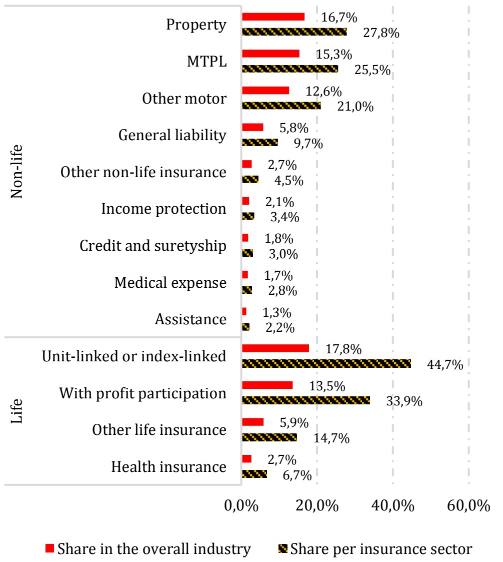
Source: RAEX (Europe) calculations based on data from the annual reports

Graph 3.9: CZ – GWPs vs Claims



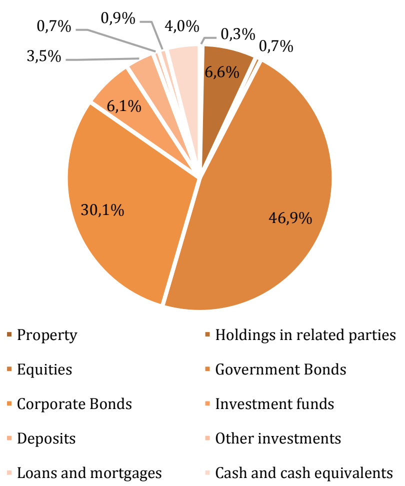
Source: RAEX (Europe) calculations based on data from the Czech National Bank

Graph 3.10: CZ – Types of insurance, 2017



Source: RAEX (Europe) calculations based on data from the Czech National Bank

Graph 3.11: CZ – Investment allocation, 3Q 2017



Source: RAEX (Europe) calculations based on data from EIOPA

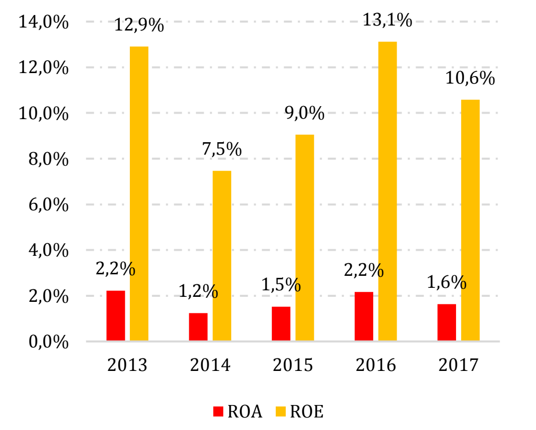
3.2 CZECH REPUBLIC

The Czech Republic has posted an average real GDP growth rate of 3,7% since 2013. In 2017 it grew solidly by around 4,3% driven by the external sector and private consumption. The unemployment rate continued its downward path and stood at 2,9% in 2017, the lowest figure in the EU. Additionally, inflation remained quite stable at 2,4% and government bond yields, despite increasing slightly, have remained low. We expect these trends to continue given the current prudent monetary and fiscal policies. However, interest rates are at record lows and political uncertainty remains since the troubled Prime Minister, Andrej Babis, has struggled to form a government. Overall, the above figures show an acceptable **operating environment** of insurers in Czech Republic.

We consider the development of the **insurance market** as moderate in general, but amongst the deepest in the CEE region. Penetration was at around 3% and density was just behind Slovenia at around USD 660 (see table 4.1). By the end of 2017 there were 50 companies in the Czech insurance market, 4 less than a year before, where 6 are life insurers, 30 are non-life insurers and 14 are composite insurers. The life to non-life ratio was 27:63 in 2017. Despite GWPs shrinking in 2015 and 2016 (mainly due to the discontinued international operations of Česká pojišťovna), they grew once again in 2017 at a 2,5% pace (see graph 3.9) led by the non-life segment while the life segment continued to decline; however, this increase is the lowest among peers (see table 4.4). Gross claims have also been in a declining trend averaging a 3% decline since 2014 which carried over in 2017, although at a slower pace, when they dropped by 0,9% (see graph 3.9). Market concentration in the country is high. The top-5 companies share of the market is 66,8% and the top-10 account for 89,4% in terms of GWP as of end-2017, where the three largest companies are Česká pojišťovna (22,1% share), Kooperativa pojišťovna (20,1% share) and Allianz (10,2% share). Even though the levels of concentration have been quite stable, they remain one of the highest among the regional peers (see table 4.18). The insurance market is rather diversified by type of insurance. The highest share belongs to unit-linked life insurance with 17,8%, followed by property insurance with 16,7%, MTPL with 15,3% and life insurance with profit participation with 13,5% of the market (see graph 3.10).

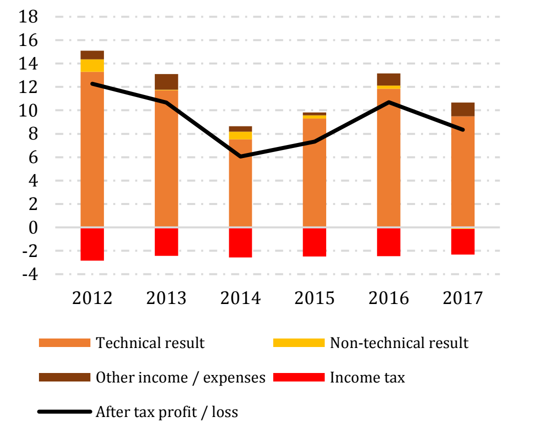
The low yield climate in the Czech Republic has caused the **investment environment** to remain subdued. As of recently, the 10-year bond yield was at 1,7% in local currency and the EUR-denominated bond maturing in 2021 has negative yields. Most of the insurers' investments, as is usual in the insurance industry, are allocated in government securities (46,9%) followed by corporate bonds (30,1%) (see graph 3.11). However, the share of government bonds has declined from 2016 (55,2%) as insures are trying to look for higher returns. However, the reduction in guaranteed

Graph 3.12: CZ – Profitability metrics



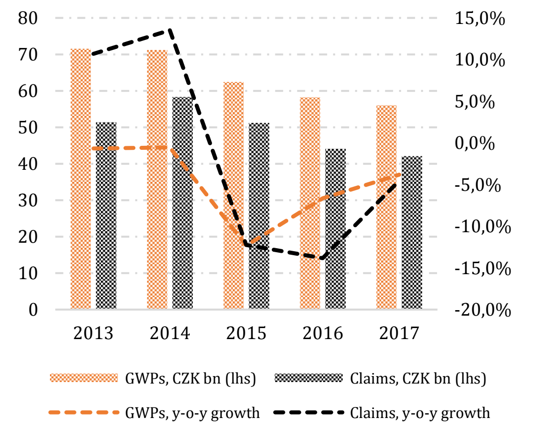
Source: RAEX (Europe) calculations based on data from the Czech National Bank

Graph 3.13: CZ – P&L composition, CZK bn



Source: RAEX (Europe) calculations based on data from the Czech National Bank

Graph 3.14: CZ – GWPs vs Claims: Life



Source: RAEX (Europe) calculations based on data from the Czech National Bank

products in the life insurance market reduce the interest rate risk for the insurers. Nonetheless, the fact that insurers reduced their holdings of CZK denominated bonds, combined with the eagerness to seek returns, augments the investment risk for the sector.

The **profitability** of the insurance sector has remained stable for the past years. Even though net profits declined in 2017, ROA and ROE have been positive for the past six years and stood at 1,6% and 10,6% (see graph 3.12); nevertheless the market lags most of its peers in these low metrics (see tables 4.15 and 4.16). These figures have been mainly driven by technical result and at a lesser extent by net investment income. Moreover, the life insurance sector represented 89% of the technical income (see graph 3.13). We anticipate profitability to increase slightly, especially investment income, one of the reasons for this being the gradual increase in interest rates by the Czech National Bank.

Since the adoption of the Solvency II directive, the Insurance sector in the Czech Republic has posted favorable **capitalization** figures. The solvency requirement ratios were 225% and 229% in 2016 and 2017 respectively.

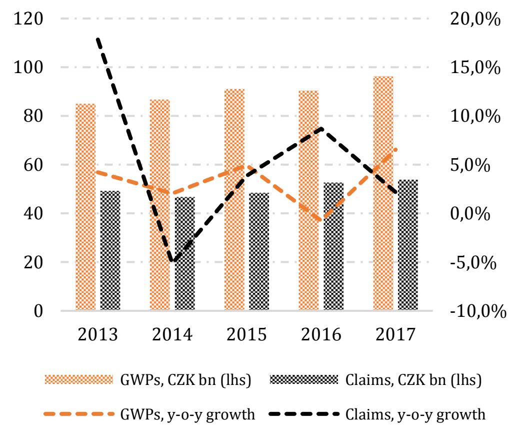
There has been some **M&A activity** in the country in recent years. In 2015 MetLife pojišťovna merged with the successor Irish insurers which resulted in two MetLife entities operating in the country: MetLife Europe Limited and MetLife Europe Insurance Limited. In the beginning of 2016, the Czech National Bank approved the merger between Wüstenrot pojišťovna and Wüstenrot, životní pojišťovna, this partnership enables Allianz to use Wüstenrot's banking network for the sale of insurance products. These mergers have improved the position of the resulting companies; however, they have also further saturated an already concentrated market hurting competition.

3.2.1 Life Insurance

The Life insurance segment in the Czech Republic continues to shrink. GWPs had a negative growth for the fifth year in a row in 2017 decreasing by 3,8% in that year as compared to 2016 (see graph 3.14). Despite this, the market remains the second biggest in the region (see table 4.9). The main reason for the above dynamic was the low-yield environment in the market, which has caused a diminished interest from clients in life insurance products in general. Also, the reduction in the amount of endowment products (which have guaranteed rates) and the restriction of tax benefit established at the end of 2014 contributed to the decrease in the sector's GWPs. In 2017, the main life insurance product was unit-linked insurance with a share of 44,7% of the whole life market followed by insurance with profit participation with a share of 34%. The dynamics point toward a higher concentration on unit-linked products, and less on non-linked products, especially ones offering guarantees, as mentioned before. Moreover, the technical result has been improving gradually.

As in other markets, the reduction of products with guaranteed pay-outs and the proliferation of unit-linked products is favorable for the insurers as it reduces their risk exposure. We anticipate the life insurance market in the Czech Republic to follow the same declining trend due to the still low-yield environment in the EU and in the country – where the CNB held off hiking interest rates recently – and unfavorable tax benefits in regards to life insurance. Term life insurance has been rising and we expect it to continue to do so going forward following the trend of policyholders recurring more to risk coverage products instead of investment products.

Graph 3.15: CZ – GWPs vs Claims: Non-life

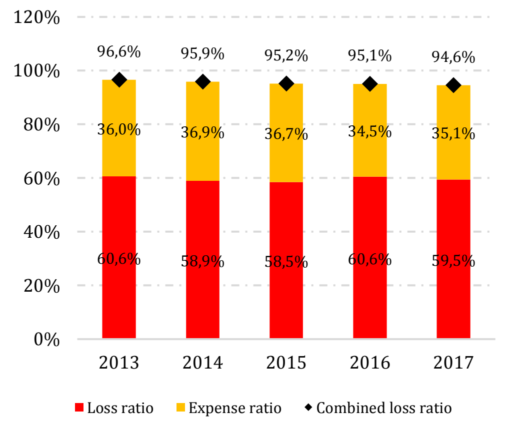


Source: RAEX (Europe) calculations based on data from the Czech National Bank

3.2.2 Non-life Insurance

The non-life insurance sector in the Czech Republic, unlike the life sector, has been constantly increasing at an average pace of 3,4% for the past five years (except in 2016 when it stood almost unchanged) and growing by 6,5% in 2017 (see graph 3.15). Claims, on the other hand, have been growing at a slower pace for the past three years (except in 2016 when they grew by 9% due to two large catastrophic events). This has caused net loss ratios to remain quite low and stable at an average of 59,6% since 2013 and at 59,5% in 2017. Expense ratios have also been stable posting an average of 35,8% for the previous five years and stood at 35% in 2017 to form a combined ratio of 94,6% in the same year (see graph 3.16). The main non-life insurance segments were property insurance accounting for 27,8% of the non-life market followed by MTPL with 25,5% and other motor insurance with 21% of the total GWPs. All three types of insurance presented a positive y-o-y growth at 18,4%, 2,2% and 11% respectively.

Graph 3.16: CZ – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from the Czech National Bank

Going forward, we expect the non-life sector to continue growing given the positive macroeconomic outlook. In addition, we also anticipate the sector to continue posting positive profitability figures with combined loss ratios below 100% propelled by both segments of vehicle insurance. However, as in its peer markets, fierce competition in this segment will prevent prices from growing substantially. In general, we have observed a stable level of claims in the sector, including the property insurance segment, this shows a good pricing strategy overall and we anticipate this to carry on forward.

Market leaders

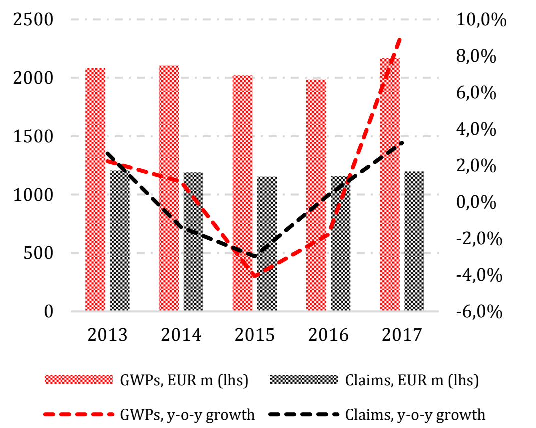
Table 3.2: Market leaders' indicators for 2016, EUR m

	GWP	GWP growth	Claims	ROE	ROA	SCR
Česká	1051,6	-1,5%	665,0	15,6%	3,8%	293%
Kooperativa	1197,7	2,8%	739,5	14,3%	2,4%	275%
Allianz	481,7	8,1%	331,4	16,6%	2,2%	184%

Source: RAEX (Europe) calculations based on data from the annual reports

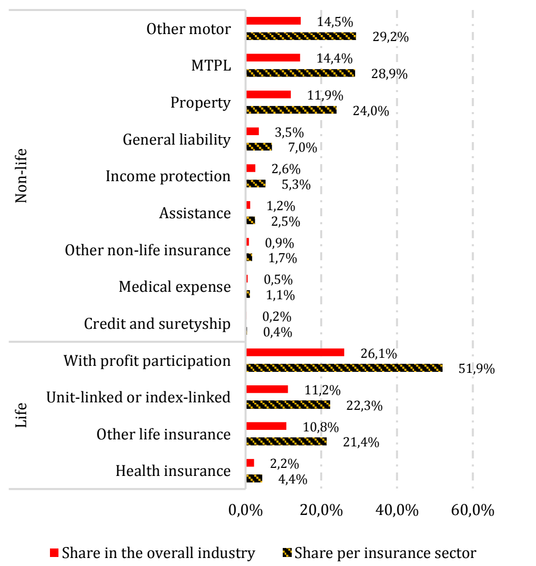
3.3 SLOVAKIA

Graph 3.17: SK – GWPs vs Claims



Source: RAEX (Europe) calculations based on data from the National Bank of Slovakia

Graph 3.18: SK – Types of insurance, 2017



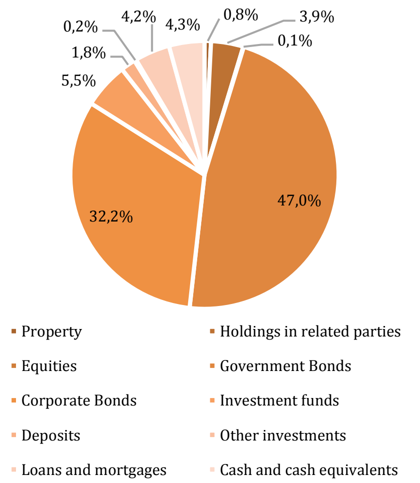
Source: RAEX (Europe) calculations based on data from the National Bank of Slovakia

The Slovak economy has been growing steadily for the past years posting a growth rate of 3,4% in 2017 spurred by solid external demand, private consumption and fixed investment as a result of the inflow of structural funds from the EU. Unemployment continued to decline in 2017 down to 8,3%; despite this, it remained amongst the highest in the region. Moreover, the inflation rate was at around 2% in 2017 rebounding to positive territory after deflation figures were posted in 2014 and 2015. Government bond yields remain low; the current 10Y bond stands at 0,77%, which is 27b.p. lower than a year ago. We anticipate the outlook to remain positive with all the indicators developing in favorable direction. We expect GDP growth to continue being solid supported mainly by country exports. We also expect stability given good fiscal discipline. However, recent political tensions given the protest against corruption which have caused the Prime Minister Robert Fico to step down, could hurt the current pace of growth in the economy as there could be skepticism towards investing in the country given potential political instability in the mid- to long-term perspective. To sum up, we consider the **operating environment** in the country to be slightly supportive for insurers operating in Slovakia.

The Slovak **insurance market** is considered to be moderately developed. Penetration stood at 2,6% and density at USD 399 in 2017, both figures were around the average values for the CEE selected peers (see tables 4.1 and 4.2). As of the end of 2016 there were 15 companies operating in the country where 3 were life insurers and 12 composite insurers; there is an almost 50:50 ratio of life to non-life insurance. After the market shrunk in 2015 and 2016, it finally expanded strongly in 2017 as GWPs grew by 9,3% to stand at EUR 2 167 m propelled by the life insurance sector growing at a 11,8% pace. Claims increased at a lower speed than premiums at 3,2% y-o-y in 2017 (see graph 3.17). The insurance market concentration in Slovakia is very high. As of 2016, including branches operating in the country, the top-5 companies share of the market was 70,5% and the top-10 accounted for 90% where the three largest companies are Allianz (26,5% share), Kooperativa (20,7% share) and Generali (9,4% share). Even though the levels of concentration have been quite stable, they remain among the highest within their peers (see table 4.18). In regards of types of insurance, the market is moderately concentrated in unit-linked life insurance with a share of 26,1%, followed by MTPL with 14,5% and other motor insurance with 14,4% of the market.

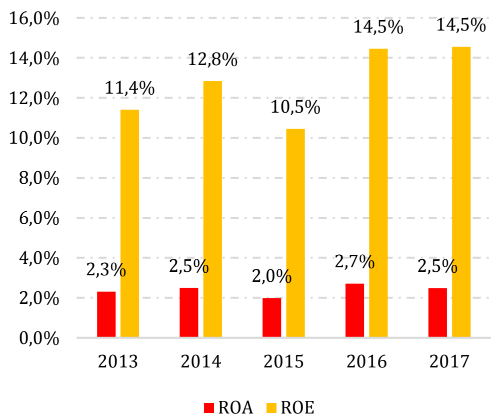
As in the rest of Europe, the **investment environment** in Slovakia is also subdued following persistently low interest rates in the Eurozone and depressed government bonds' yields. In fact, the overall insurers' investment portfolio shrank by 0,8% from 2016 to 2017. The Slovak government bond yields remain low; the current 10Y bond stands at

Graph 3.19: SK – Investment allocation, 3Q 2017



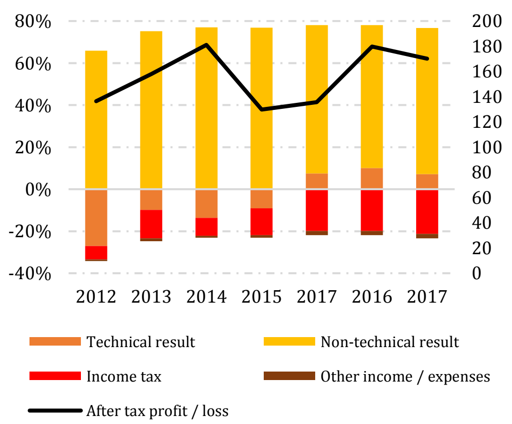
Source: RAEX (Europe) calculations based on data from EIOPA

Graph 3.20: SK – Profitability metrics



Source: RAEX (Europe) calculations based on data from the National Bank of Slovakia

Graph 3.21: SK – P&L composition, EUR m



Source: RAEX (Europe) calculations based on data from the National Bank of Slovakia

0,77% showing a declining trend over the past five years. Even though most of the investments remain in government bonds (47% as of 3Q 2017) there has been a portfolio reshuffling by the insurance companies in search for more yield. The holding of government bonds was reduced by 5,5p.p. from 2016 and holdings on related parties have increased (see graph 3.19). Moreover, the proliferation of insurance with profit participation products (which offer certain guarantee) augments the investment risk in the market.

The Slovak market has had stable **profitability** figures. Even though we saw a fall in net profit in 2017, this was mainly due to a base effect as in 2016 there was a one-time increase of profitability (dividend payments from subsidiaries). Unlike other markets, the profits have been maintained heavily by financial returns, technical results have been a lot lower due to negative figures posted by the life insurance segment as a result of high claims and operating expenses (see graph 3.21). Over the past years, the market posted positive and steady ROA and ROE figures; as of 2017 they were 2,5% and 14,5% respectively(see graph 3.20); in line with the average of its peers.

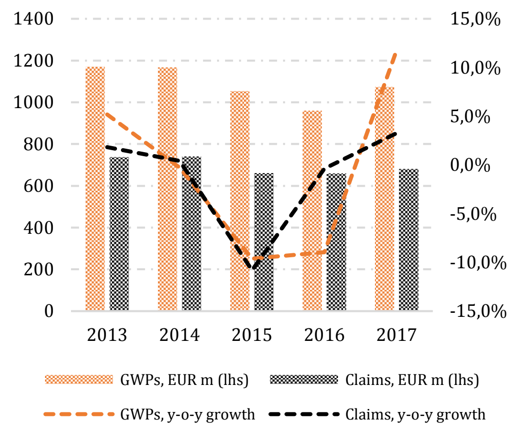
Capitalization in regard to the new Solvency II directive has also been positive for Slovakia. Despite the solvency capital requirement falling in 2017 to 211% from 226% in 2016, it remains at acceptable levels. The coverage ratio, however, decreased by 5% in 1H 2017, as a result of redemptions of capital in several insurance companies.

Slovakia has also been active with **M&A activity** recently. As of 1 April 2018 Poisťovňa Slovenskej sporiteľne (PSLSP), a bank assurance company, merged with Kooperativa poisťovňa increasing the stake of the Vienna Insurance Group (VIG) in the region with an expected market share of around 35% in 2018. Moreover, it is expected that in the current year Allianz - Slovenská poisťovňa, will take over the subsidiaries of ERGO Group AG: ERGO Poisťovňa. These mergers are a result of market consolidation, which has resulted in stricter regulatory measures. In these sense, we expect more market consolidation efforts going forward.

3.3.1 Life Insurance

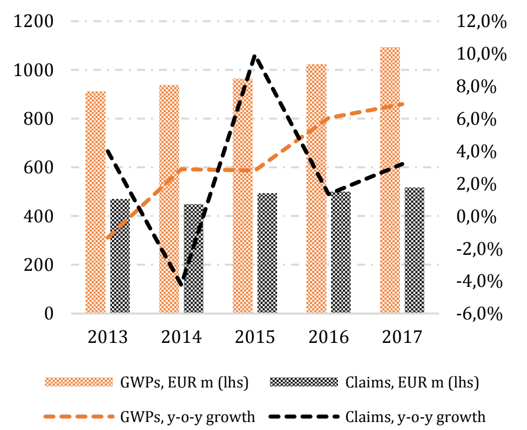
After continued contraction of the life insurance sector from 2013 until 2016, it expanded strongly in 2017, as GWPs grew at a rate of 11,8% (see graph 3.22). This was the result of the increase in unit-linked products (by 20%) and products with profit participation (by 11%). In 2017, the market was dominated by profit participating products with a share of 52% followed by unit-linked products with a share of 22,3% (see graph 3.18). Different from other markets, unit-linked products in Slovakia, albeit growing at a higher pace than with profit products, take second place in terms of market share. This structure increases the risk of the insurers as in the low interest rate environment it is harder to cover the

Graph 3.22: SK – GWPs vs Claims: Life



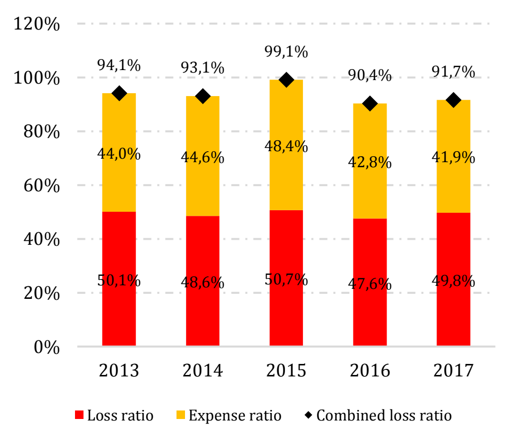
Source: RAEX (Europe) calculations based on data from the National Bank of Slovakia

Graph 3.23: SK – GWPs vs Claims: Non-life



Source: RAEX (Europe) calculations based on data from the National Bank of Slovakia

Graph 3.24: SK – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from the National Bank of Slovakia

guaranteed contracts. We expect, however, the unit-linked product market to increase. Additionally, the technical result has been constantly negative for the past years.

We see the life insurance market in Slovakia slightly riskier than in its peer countries due to the low level of unit-linked products in which the risk is shared with the policyholder. In the current market situation, guaranteed and partially guaranteed products bear more investment risk attributed to the insurer. However, we expect this to reverse going forward as unit-linked products become more popular and big companies taking over the market have a broad offering. Furthermore, if the new proposed tax plan is also applied to life insurance sector, we anticipate further decrease in profits, which are already negative. In this case, we also see a risk for the policyholder as, given the negative profit figure, premiums might increase.

3.3.2 Non-life Insurance

The non-life insurance sector in Slovakia has been consistently growing. GWPs grew at an average pace of 3,9% for the past four years; in 2017 they hiked by 6,9%. Claims have been growing at a slower pace; in 2017 the value of paid claims increased by 3,2% in the Slovak market (see graph 3.23). The underwriting result posted positive figures once again in 2017 and remained practically flat as compared with the 2016 results. The technical result is further supported by the favorable levels of loss ratios and expense ratios. As of 2017, the sector's loss ratio stood at around 49,8% and the expense ratio at 41,9% for a combined ratio of 91,7% showing consistency from 2016 where the combined ratio stood at 90,4% (see graph 3.24). In the non-life insurance sector, the main segments were other motor insurance with a share of 29,2% of the overall non-life insurance GWPs followed by MTPL insurance with a share of 28,9% and, finally, property insurance accounting for 24% of the non-life insurance market. Both segments of vehicle insurance presented growth rates of around 9% while property insurance actually shrunk by 6,6% in 2017. Overall profitability numbers in 2017 were affected by the newly introduced levy of 8% on all non-life insurance contracts under an Insurance Act amendment adopted as of end-2016. Moreover, the law misinterpretation by some insurers will have an even stronger impact on profits as the tax will apply to more contracts than initially expected[1].

We expect the non-life insurance market growth to slow down given the effects of the new taxation system. Due to the moderate level of penetration and density in Slovakia, additional taxation in premiums will hurt the development of the insurance market. Besides the risk of lower

[1] A feature of non-life contracts, however, is that they are usually concluded for a one-year period and then renewed for another year. The question therefore arose as to whether renewals of contracts signed before 1 January 2017 were to be treated as new contracts for the purpose of the levy. The insurance sector interpreted the law to mean that renewals do not constitute a new contract and are therefore not subject to the levy. Such contracts could therefore be repeatedly renewed without being retrospectively subject to the levy. At the end of September 2017 the Financial Directorate of the Slovak Republic issued explanatory information about the levy, including a notice that contract renewals are to be treated as new contracts and are therefore subject to the levy.

profits for the insurer, there could be repercussion on the policyholders as prices might increase. Nonetheless, current profitability levels for the non-life insurance market are solid and we do not expect huge price hikes to happen in the mid-term. What is more, the way the new proposed tax will work remains ambiguous which makes it harder for the insurer's to define their action plans.

Market leaders

Table 3.3: Market leaders' indicators for 2016, EUR m

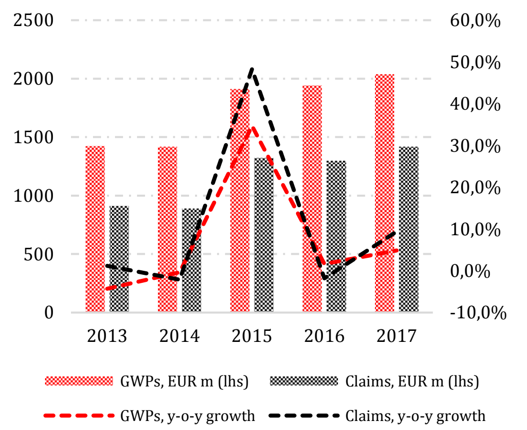
	GWP	GWP growth	Claims	ROE	ROA	SCR
Allianz - Slovenská	552,4	1,5%	281,9	21,5%	3,8%	207%
KOOPERATIVA	460,7	1,0%	351,4	10,1%	2,6%	257%
Generali	209,0	7,6%	115,2	5,2%	1,1%	293%

Source: RAEX (Europe) calculations based on data from the IMF

3.4 SLOVENIA

Slovenia's economy grew at a high rate of 5% in 2017, the highest in the last ten years, on the backdrop of strong domestic and external demand. In line with this, the country`s unemployment continued to fall from its peak level in 2013 down to 6,8% in 2017. Inflation was also at favorable levels in 2017 posting a reading of 1,7% and expected to remain stable around this level. The yield on the 10Y government bond has recently declined down to around 1,08%. We expect the solid economic growth to carry on forward, albeit at a slower pace, supported by a strong external sector. However, as in other CEE countries, political turmoil in Slovenia has not been the exception. Slovenian Prime Minister Miro Cerar left the post on March due to political pressure. We see a risk of a shift in policies given that Cerar's party is not leading the polls. We do not anticipate these events to interfere with the current economic momentum; however, we do consider that if the political uncertainty is prolonged, it might hurt investor confidence and have a negative impact in the mid-run. All of the above factors take us to consider the **operating environment** in the country to be moderately positive for insurers operating in Slovenia.

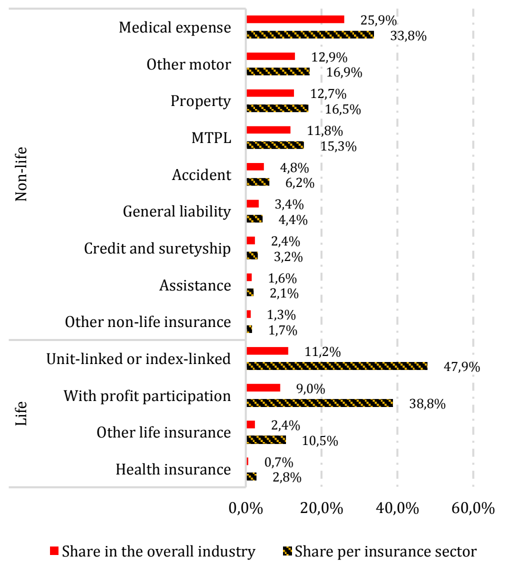
Graph 3.25: SI – GWPs vs Claims



Source: RAEX (Europe) calculations based on data from the Slovenian Insurance Supervision Agency

Slovenia has the most developed **insurance market** among the selected CEE countries. Penetration and density figures at 4,8% and USD 1 183 respectively in 2017 are quite high taking into account the country's overall level of development (see tables 4.1 and 4.2). These figures can be compared with countries such as Portugal, Norway and Austria. As of the end of 2016, the Slovenian market had 14 insurance companies where 6 were composite insurance companies, 4 non-life insurers and 4 life insurance companies; the life to non-life ratio was 30:70 as of 2017. GWPs grew by 1,6% in 2016 and by 4,9% in 2017, with both life and non-life segment growing consistently. Gross claims, after having declined in 2016, have grown at a higher pace than premiums; as of 2017, gross claims increased by around 9,4% (see graph 3.25). The market concentration in the country one of the highest among the CEE peers mainly due to the limited amount of insurance companies (see table 4.18). As of 2017, the top-5 insurers controlled around 77% of the market while the top-10 around 93% (this also includes branches operating in Slovenia). The three largest companies in terms of GWPs were Zavarovalnica Triglav with a share of 27%, Zavarovalnica Sava with 16,7% and Adriatic Slovenica, Zavarovalna družba with 14% of the market. As of end-2016, the highest share belonged to medical expense insurance with 25,9%, followed by other motor insurance with 12,9% and MTPL with 12,7% (see graph 3.26).

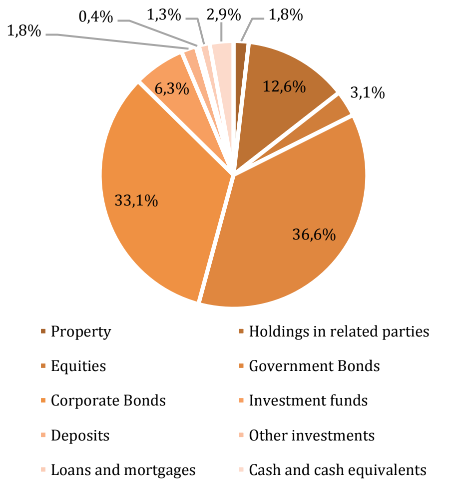
Graph 3.26: SI – Types of insurance, 2017



Source: RAEX (Europe) calculations based on data from the Slovenian Insurance Supervision Agency

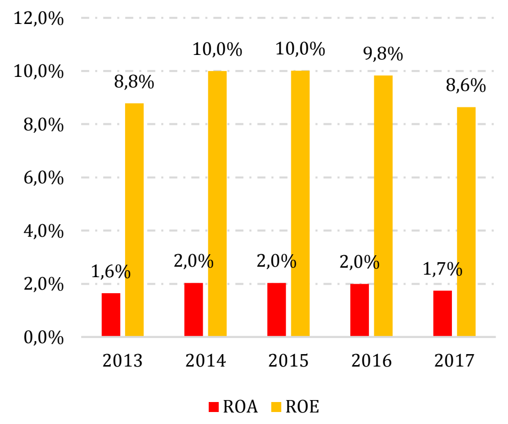
As in all European countries, the **investment environment** in Slovenia is also suffering from the low interest rate situation. The 10Y government bond has remained almost flat for the past year and is currently standing at 1,12%. Most of the investments are in government bonds, albeit at a declining rate as insurers look for returns in other types of investment.

Graph 3.27: SI – Investment allocation, 3Q 2017



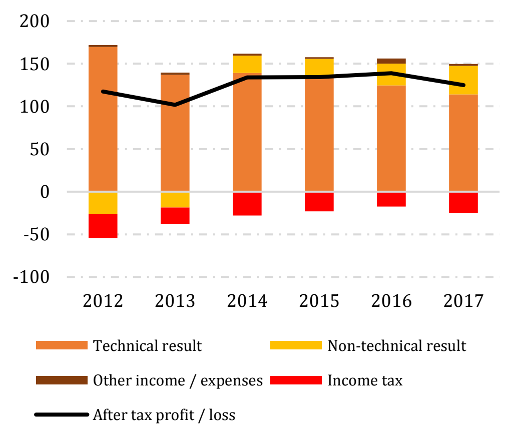
Source: RAEX (Europe) calculations based on data from EIOPA

Graph 3.28: SI – Profitability metrics



Source: RAEX (Europe) calculations based on data from the Slovenian Insurance Supervision Agency

Graph 3.29: SI – P&L composition, EUR m



Source: RAEX (Europe) calculations based on data from the Slovenian Insurance Supervision Agency

The share of government bonds as of 3Q 2017 was 36,6%, where most of the investments are EU or Slovenian bonds followed by corporate bonds at around 33% (see graph 3.27). Moreover, more than 95% of investments are EUR-denominated, reducing the currency risk for the entities. Finally, the Slovenian SBITOP index has increased by about 5% since end-2016 supporting the value of the equity portfolio of the insurers.

Insurance sector **profitability** in Slovenia has been positive and stable for the past years mainly propelled by positive result of insurance operations, especially the non-life segment which represented 68% of the technical result (see graph 3.29). In 2017 ROA and ROE were positive at 1,7% and 8,6% respectively, we expect the positive trend to continue in 2017 (see graph 3.28).

The market **capitalization** has been solid. Solvency requirement ratios have been 240% and 258% in 2016 and 3Q 2017 respectively.

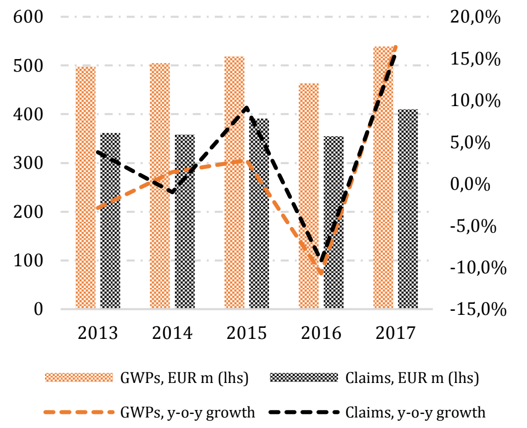
In regard to **M&A activity**, the Slovenian Administrative Court recently ruled in favor of ADRIS Grupa, the Croatian Holding trying to acquiring a 20% interest in Sava Re. Thus, the decision of the AZN to repeal the deal will have to be reconsidered. Moreover, Slovenia's Zavarovalnica Sava, which is part of the Sava RE Group, announced plans to acquire Croatian subsidiaries of the ERGO Group.

3.4.1 Life Insurance

The life insurance sector shrunk in 2016 by about 10,7% in terms of GWPs mainly due to a reduction in premiums, especially for unit-linked products, and several maturing policies. However, this segment posted a strong increase in GWPs in 2017 by growing at a 16,4% rate which resulted in the general improvement of economic conditions and augmented predisposition for spending in the country (see graph 3.30). The growth was supported mainly by unit-linked products. The main life insurance product as of end-2017 was the unit-linked policy accounting for around 48% of total life insurance's GWPs, which has been gradually increasing as in other regional markets. It was followed by profit participation products with around 38,8% of the market (see graph 3.26). The life insurance sector has also shown stable and positive underwriting results.

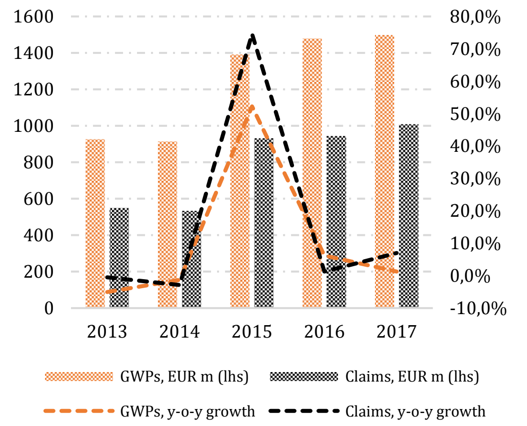
The increase in the share of unit-linked products, as mentioned above, is a positive sign for the risk undertaken by the insurers. We expect, however, the sector to be affected by maturing policies and still challenging market conditions. Nonetheless, the positive economic outlook for the country should provide a boost in the segment's products.

Graph 3.30: SI – GWPs vs Claims: Life



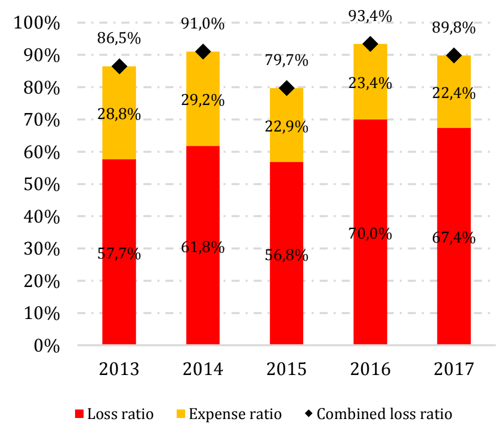
Source: RAEX (Europe) calculations based on data from the Slovenian Insurance Supervision Agency

Graph 3.31: SI – GWPs vs Claims: Non-life



Source: RAEX (Europe) calculations based on data from the Slovenian Insurance Supervision Agency

Graph 3.32: SI – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from the Slovenian Insurance Supervision Agency

3.4.2 Non-life Insurance

The non-life insurance segment has been steadily increasing for the past three years; as of 2017 it grew by around 1,3% in terms of GWPs driven by medical expense insurance and all segments of vehicle insurance (see graph 3.31). However, claims grew at a faster pace than premiums by growing at a rate of around 7% in 2017. Loss ratios have remained at acceptable levels posting figures of 65% and 66% in 2016 and 2017 respectively; combined ratios have also remained below 100% as a result of good management of expenses (see graph 3.32). The main non-life insurance segments in 2017 were medical expense insurance with a share of around 33,8% followed by other motor insurance with around 16,9% and property insurance with 16,5%. Property insurance showed a substantial increase in claims due to a hike in catastrophic events.

We anticipate the non-life insurance market to continue in a positive trend given favorable macroeconomic expectations. In regard to vehicle insurance, we anticipate competition to continue. However, we expect the potential abolition of supplementary health care to have a negative impact on the industry. We also anticipate investment strategies to remain conservative given the still high amount of fixed income securities in the Slovenian insurers' balance sheet. Moreover, the lingering subdued market conditions will continue to limit the non-technical result.

Market leaders

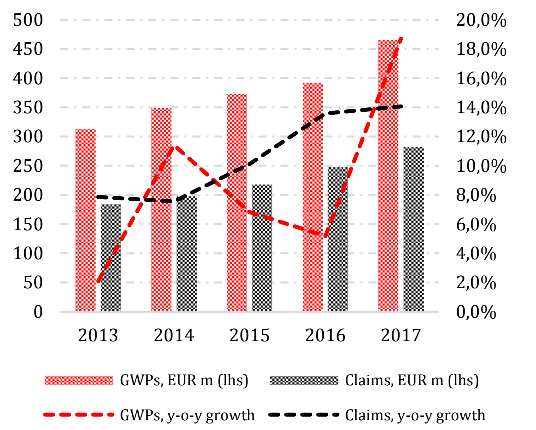
Table 3.4: Market leaders' indicators for 2016, EUR m

	GWP	GWP growth	Claims	ROE	ROA	SCR
Triglav	593,1	1,2%	391,2	13,4%	2,7%	303%
Sava	347,3	1,9%	198,0	15,0%	2,1%	233%
Adriatic Slovenica	298,8	0,7%	218,7	12,4%	1,6%	146%

Source: RAEX (Europe) calculations based on data from the annual reports and Slovenian Insurance Supervision Agency

3.5 LATVIA

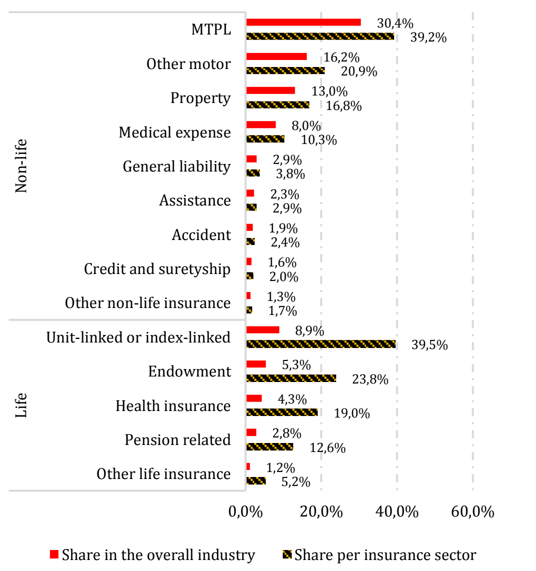
Graph 3.33: LV – GWPs vs Claims



Source: RAEX (Europe) calculations based on data from the Latvian Insurers Association and Latvian Financial and Capital Market Commission

Real GDP growth in Latvia was very solid in 2017 at 4,5%, the strongest rate since 2011. The strong performance has been propelled by similar factors as in peer countries: favorable exports as a result of the improving external environment, higher private consumption and better investment figures. Unemployment continued to decline, however, it remains the highest among its peers at 8,7% in 2017. Moreover, inflation has remained quite stable for the past years and it posted an HICP increase of 2,1% and we anticipate the reading to remain stable going forward. Latvia's 10Y government bond yield (5Y remaining maturity) has continued to decline and stands now at around 0,55%. We anticipated the economic momentum to continue backed by strong external environment. Moreover, despite the recent liquidation of ABLV bank, we still see a solid environment with stable public finances. Nonetheless, Latvia's high dependence on its EU partners make it vulnerable to potential external shocks. All of the above support a positive **operating environment** for the insurance sector in the country.

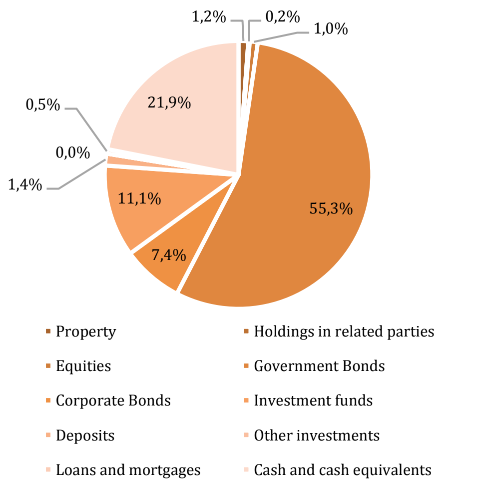
Graph 3.34: LV – Types of insurance, 2017



Source: RAEX (Europe) calculations based on data from the Latvian Financial and Capital Market Comission

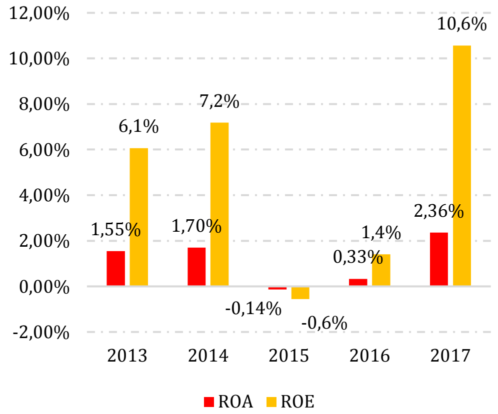
The Latvian **insurance market** is less developed than its selected CEE peers as penetration and density were as low as 1,7% and USD 285 as of the end of 2017 (see tables 4.1 and 4.2). As of the end of 2017, the Latvian insurance market had 18 companies where 6 operate in the life insurance sector (although also offering health and accidents insurance) and the other 12 are exclusively offering non-life insurance products, however, 2 companies write most of their premiums outside Latvia. The ratio of life to non-life insurance in the domestic market is 25:75. GWPs have been consistently growing for the past four years at an average rate of 10,5%; in 2017 they grew at a pace of 18,7% driven by an important increase in both the life and non-life insurance sectors. After a period of several years where gross claims grew at a higher rate than premiums, in 2017 growth in claims was lower when it hiked by only 9,4% (see graph 3.33). With respect to premiums written domestically, the market is characterized by a small amount of companies, however, it is not highly concentrated, and most of GWPs are distributed among most of the companies, especially in the non-life sector. The concentration on the top-5 companies was 56% led by BALTA with 18,9% of overall GWP and followed by BTA Baltic Insurance Company with 12% of market share. The largest companies in regards to overall written premiums are BTA Baltic Insurance Company (24,3%) and Balcia Insurance SE (14,6%), however, BTA's premiums written in Latvia are 34% and Blacia's are only 2%. Both companies write most of their premiums outside Latvia in other EU countries. The main types of insurance written by Latvian insurers and branches operating in the country by end-2017 in terms of GWPs were MTPL with a share of 30,4% followed by other motor insurance with a share of 16,2% and property insurance accounting for 13% of the market (see graph 3.34).

Graph 3.35: LV – Investment allocation, 3Q 2017



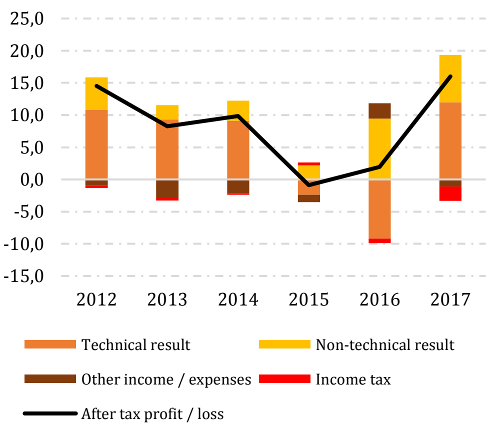
Source: RAEX (Europe) calculations based on data from EIOPA

Graph 3.36: LV – Profitability metrics



Source: RAEX (Europe) calculations based on data from the Latvian Insurers Association and Latvian Financial and Capital Market Commission

Graph 3.37: LV – P&L composition, EUR m



Source: RAEX (Europe) calculations based on data from the Latvian Insurers Association and Latvian Financial and Capital Market Commission

The **investment environment** in Latvia is no different than in the rest of the CEE region. Yield of Latvian bonds have continued to decline. Moreover, as of 3Q 2017 investments remained concentrated in government bonds with a share of around 55,3% of overall investments followed by holding in cash with a share of 21,9% (see graph 3.35) the highest cash holdings among the selected CEE countries.

The **profitability** of the Latvian insurers has been quite volatile in the past years. Between 2010 and 2014, the technical result has been consistently positive; however, it turned to negative territory in 2015 and 2016 as a result of slower premium growth and higher claims. However, figures as of the end of 2017 reverted the negative trend, indicated by a very solid technical result above EUR 10 m. On the other hand, 2016 presented a positive non-technical result even when correcting for the one-off investment income received by Balcia Insurance SE as a result of a large transaction (see graph 3.37). In general, ROA and ROE have been consistently positive (except for 2015 when it presented negative values) posting figures of around 0,3% and 1,4% respectively in 2016 (after correcting for the above mentioned one-off effect) and 2,3% and 10,6% respectively in 2017 (see graph 3.36).

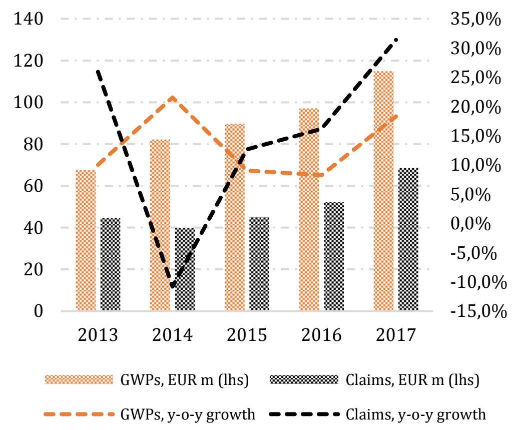
The level of **capitalization** in the country is moderate. Even though the solvency capital requirement is above 100% it is lower than its peers at around 140% in 2017.

In regard to **M&A activity**, the non-life insurance sector has continued with the market consolidation efforts. In 2016, Balcia Insurance SE completed the reorganization of the company where they transferred their portfolio related to the Baltic countries to BTA Baltic Insurance Company which was afterwards sold to the Vienna Insurance Group AG. Additionally, the Vienna Insurance Group AG merger of its subsidiaries InterRisk and BTA Baltic was recently approved. This latest move will concentrate the domestic market in the two largest insures in the Latvian territory which will account for more than 35% in GWPs. Also in 2016, Gjensidige Group merged its companies in the Baltics.

3.5.1 Life Insurance

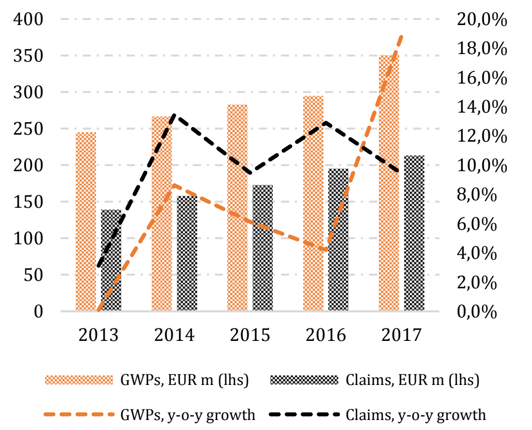
The domestic life insurance sector expanded strongly in 2017 when GWPs grew by 18,3% as compared to an average of 8,7% in 2015 and 2016. The growth represented an important increase attributed to attractive new products combined with persisting fiscal benefits. This is shown by the substantial growth in life insurance annuity pension products which grew by around 71% in 2017. Nonetheless, claims increased by around 31% mainly due to pay-outs for unit-linked, endowment and annuity products (see graph 3.38). This caused the sector to post a negative technical result in 2017; despite this, it showed an improvement as compared to 2016. The main life insurance products in 2017 were unit-linked with a market share

Graph 3.38: LV – GWPs vs Claims: Life



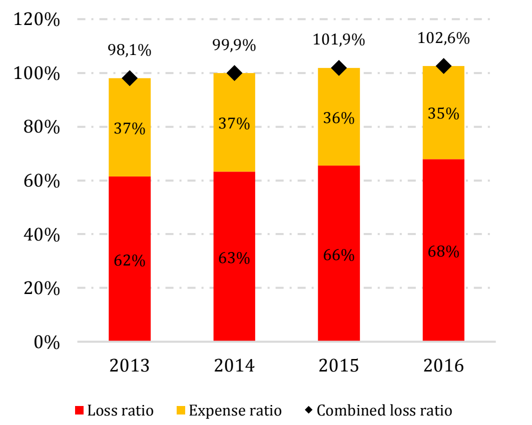
Source: RAEX (Europe) calculations based on data from the Latvian Insurers Association and Latvian Financial and Capital Market Commission

Graph 3.39: LV – GWPs vs Claims: Non-life



Source: RAEX (Europe) calculations based on data from the Latvian Insurers Association and Latvian Financial and Capital Market Commission

Graph 3.40: LV – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from the Latvian Insurers Association and Latvian Financial and Capital Market Commission

of 39,5% of total life insurance GWPs followed by endowment products with a share of 23,8% and health insurance accounting for 19%. However, the positive result in life insurance could be a one-off effect as a result of an increase in new policies at year-end due to the legislative changes in the treatment of the life segment.

The life insurance market in Latvia remains quite underdeveloped as compared to its peers with a fairly low amount of written premiums (see table 4.5). We anticipate the life insurance business in Latvia to remain challenging. The fact that life insurers in Latvia do not rely heavily on guaranteed products reduces the risk for the companies; however, this factor alongside lingering low rates in the financial market, makes it difficult for the insurance providers to write new premiums in the country. Moreover, recent changes in the contractual term of life insurance contracts and limits in contribution amounts may hurt the desire to save. Despite this, in our view, pension annuities will continue to rise as they provide a beneficial substitute to the refunding options.

3.5.2 Non-life Insurance

The Latvian non-life insurance sector has been consistently positive for the past years and made a big jump in 2017. Premiums written in the domestic market increased by 18,8% propelled by an increase in MTPL, and other motor insurance. Additionally, claims paid in the local market increased by 9,4% (see graph 3.39). The underwriting result has been favorable as the loss ratio stood at 63,6% and the expense ratio at 32,1% in order to have a combined ratio below 100% at 94,9%. These figures show an improvement as compared to a year before where the combined ratio was 102,2%. The main types of non-life insurance written by Latvian insurers and branches operating in the country in 2017 were MTPL with a share of 39,2% followed by other motor insurance with a share of 20,9% and property insurance accounting for 16,8% of the market.

We expect the non-life insurance sector to continue to be solid. MTPL insurance posted a positive growth in 2017 and we anticipate this segment to continue growing. In general, we anticipate that the non-life market to continue to be dominated by vehicle-related products. Additionally, in our view, the sector will remain profitable as a result of adequate operating expense management coupled with higher premiums written due to a buoyant economy.

Market leaders

Table 3.5: Market leaders' indicators for 2016, EUR m

	GWP	GWP growth	Claims	ROE*	ROA*	SCR*
BALTA	75,6	12,6%	44,4	18,1%	4,3%	163%
ERGO	59,5	11,9%	36,1	2,4%	0,5%	129%/ 181%**
BTA	46,2	-18,2%	30,8	5,7%	1,2%	127%

*including operations outside of Latvia

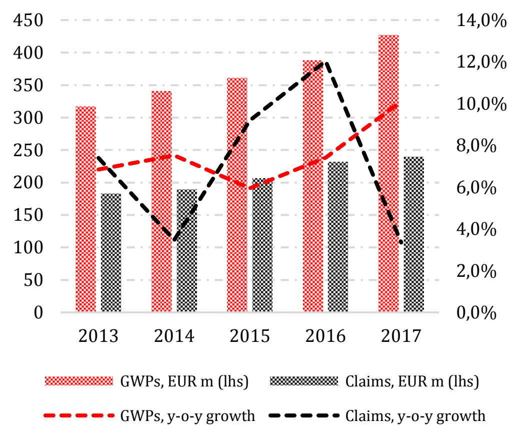
**Non-Life and Life businesses respectively

Source: RAEX (Europe) calculations based on data from the annual reports and Latvian Insurers Association

3.6 ESTONIA

Similar to the other Baltic countries, Estonia also enjoyed a solid real GDP growth in 2017 at 4,9% driven by increasing domestic demand and a strong external sector propelling a hike in exports. The declining trend of the unemployment rate continued in 2017 when it stood at 5,8%, which is the lowest among the Baltic countries. Additionally, the inflation rate picked up to 3,8% as a result of an increase in salaries propelling domestic demand. These wages have continued to increase in line with economic growth and the government has introduced tax cuts, both of which have driven an increased household savings. We expect the economy to continue to perform favorably in the following years as a result of solid external demand. Nonetheless, we see similar risks than for the other Baltic countries: high dependence on external partners. The aforementioned factors underpin an encouraging **operating environment** for the Estonian insurance sector.

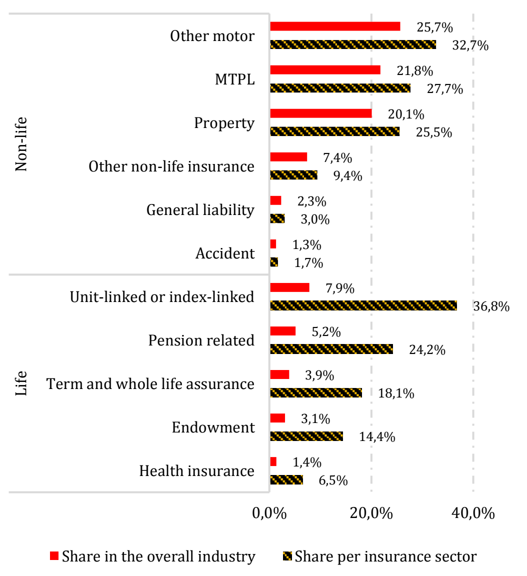
Graph 3.41: EE – GWPs vs Claims



Source: RAEX (Europe) calculations based on data from the Statistics Estonia

The **insurance market** in Estonia has similar level of development than the other Baltic countries, however, as compared to the selected CEE peers, it lags behind (see tables 4.1 and 4.2). Density and penetration of the Estonian market were at USD 391 and 1,9% respectively in 2017. By the end of 2017 there were 19 companies in the market of which 14 were non-life insurers and 5 life insurers; out of all companies, 8 are branches operating in Estonia. The ratio of life to non-life insurance in the domestic market is 21:79. The market has been growing consistently at an average pace of 7,6% for the past five years; in 2017 alone GWPs grew by 10,1% supported mainly by the non-life insurance sector hike. Moreover, claims only grew by 3,3% in 2017 after having increased by around 9% and 12% in 2016 and 2016 respectively (see graph 3.41). The Estonian insurance sector is also concentrated on the top companies; as of 2017 the top-5 and top-10 companies accounted for 64% and 91% of overall GWPs. The largest companies were If P&C Insurance with a share of 16,9%, ERGO Insurance accounting for 13,1% and Swedbank P&C Insurance with 12,9% of the premiums, all of which are non-life insurers. The major insurance segments in Estonia were other motor insurance with a share of 25,7% of overall GWPs followed by MTPL which accounted for 21,8% and property insurance with 20,1%.

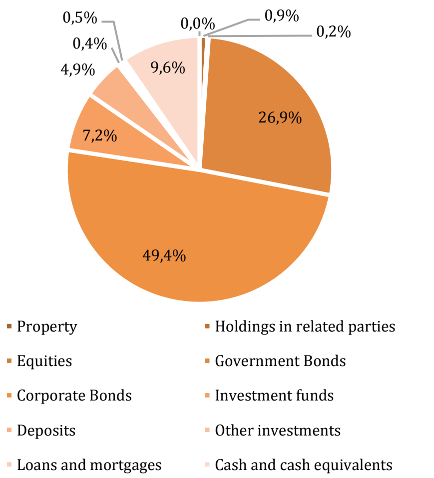
Graph 3.42: EE – Types of insurance, 2017



Source: RAEX (Europe) calculations based on data from the Statistics Estonia

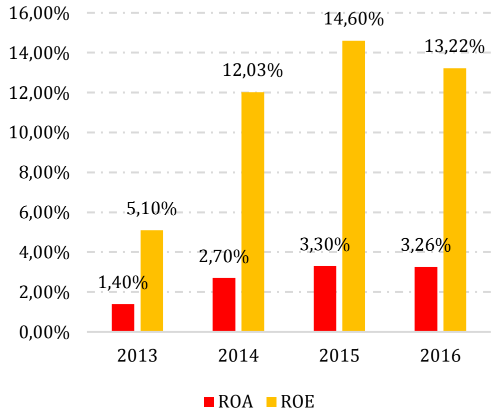
The Estonian **investment environment** has also been under pressure given the lingering low interest rates. However, as a result of almost no investment diversification in the insurance market, the investment picture is more adverse than in its peer countries. By the end of 2017, 76% of investment were allocated to fixed income products (see graph 3.43). Although the risk profile of bond investments is low, the high share of these types of assets in the insurers' balance sheets augments the risk of

Graph 3.43: EE – Investment allocation, 3Q 2017



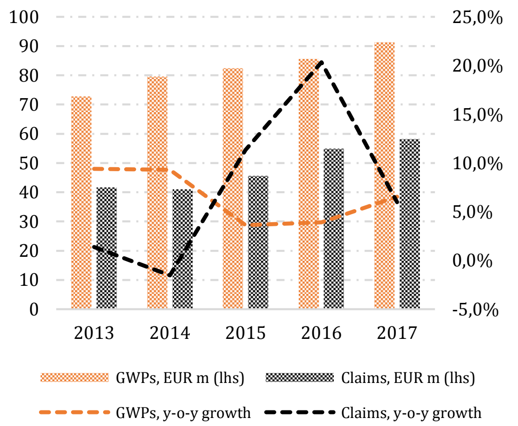
Source: RAEX (Europe) calculations based on data from EIOPA

Graph 3.44: EE – Profitability metrics



Source: RAEX (Europe) calculations based on data from the OECD

Graph 3.45: EE – GWPs vs Claims: Life



Source: RAEX (Europe) calculations based on data from the Statistics Estonia

low return on investment; more so, for life insurance companies which offer guaranteed products.

Profitability in the Estonian insurance market has been consistently positive over the past years. Despite net income having fallen from 2015 to 2016, ROA and ROE have been positive over the past years posting values of 3,3% and 13,2% respectively in 2016 (see graph 3.44). Despite the adverse conditions in the financial markets, investments have performed positively; however, the positive net profit is still mainly driven by favorable technical results. The profits of the sector have been stable and have tended more towards growth.

The market **capitalization** in Estonia is positive. As of end-2017, the solvency capital requirement was 209% for non-life insurers and 182% for life insurers. Both ratios well above 100%.

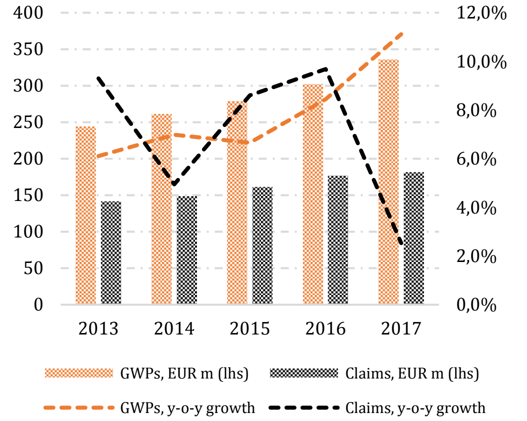
There has been some **M&A activity** in the country over the past years. On November last year the merger of Mandatum Life Insurance Baltic SE with its parent company and activities in the Baltic States will be continued through branches of the Finnish parent company. Two non-life insurance branches were licensed. Lastly, as a result of the sale made at the end of the year, the new owner of Seesam Insurance AS will be Vienna Insurance Group (VIG), which holds the largest share of the various companies in the Baltic non-life insurance market. As mentioned in the Latvia section, Gjensidige Group merged its companies in the Baltics and has its headquarters in Lithuania with a branch operating in Estonia.

3.6.1 Life Insurance

Life insurance premiums in Estonia have grown positively but modestly since 2013 at an average rate of 6,6% and in 2017 alone they grew by 6,5%. The increased was led by unit-linked insurance products, which resumed an upward trend in 2017 and continues to be the driving force in this insurance sector by presenting a solid growth and increasing market share. In regards to claims in the life insurance sector, these increased substantially in 2015 and 2016 outpacing the growth in GWPs, however, they hiked by a rate of only 6% in 2017 (see graph 3.45). The increase in claims was mainly driven by larger pay-outs in the pension insurance segment which grew by around 38% from a year ago. The main types of life insurance in the country in 2017 in terms of GWPs were unit linked life insurance with a share of 37% of the market followed by pension related insurance with a share of 24%.

We consider that the life insurance market in Estonia remains underdeveloped as compared to most EU countries. Despite the abovementioned growth on unit-linked products, these have been hit in recent years due to the state of the financial markets and the removal of tax breaks for long-term investments. Nonetheless, we expect these products to continue to grow going forward as this type of insurance reduces the exposure of the company to risk arising from financial markets. In addition, pension insurance products have been increasing related to both the second and third pillars. As gradually more people are eligible to obtain funds from the second pillar which are 50x of the national pension, we expect annuities' contracts to increase. On the other hand, we anticipate insurance contracts related to the third pillar to remain stable.

Graph 3.46: EE – GWPs vs Claims: Non-life

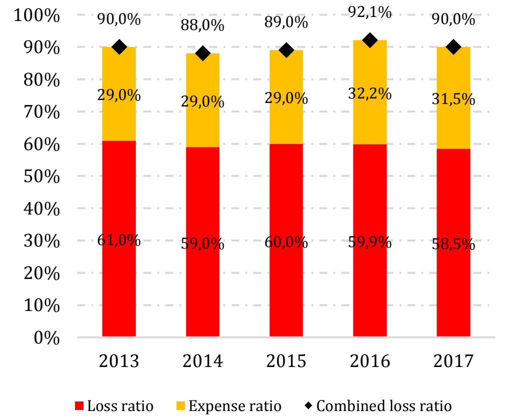


Source: RAEX (Europe) calculations based on data from the Statistics Estonia

3.6.2 Non-life Insurance

The non-life insurance sector in Estonia has also been increasing consistently. For the past five years it has been growing at a pace of 8% on average while in 2017 it presented an increase of 11,1% in GWP, the highest in the past seven years. Growth was mainly driven by MTPL insurance due to a combination of higher premiums charged and more contracts written. On the other hand, claims increased by only 2,5% in 2017 supported mainly by a flat increase in land vehicle insurance (see graph 3.46). The main types of non-life insurance in Estonia as of 2017 were other motor insurance accounting for 32,7% of total GWPs, MTPL with a share of 27,7% and property insurance taking 25,5% of the market. In general, underwriting results have been favorable in the market. In 2016 the combined ratio was 92% and it improved in 2017 when it posted a figure of 90% made up of a loss ratio of 58,5% and an expense ratio of 31,5% (see graph 3.47).

Graph 3.47: EE – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from Finantsinspektsioon

We anticipate the non-life insurance sector to continue to grow strongly and post positive profit figures. Even though the market is concentrated, most of the companies have presented growth in written premiums over the last year. We also anticipate competition to increase as a result of higher claims and persistent market concentration in the top-4 companies. In our view, both segments of motor insurance as well as property insurance are forecast to grow driven by higher credit growth in mortgages as well as in auto loans and leases.

Market leaders

Table 3.6: Market leaders' indicators for 2016, EUR m

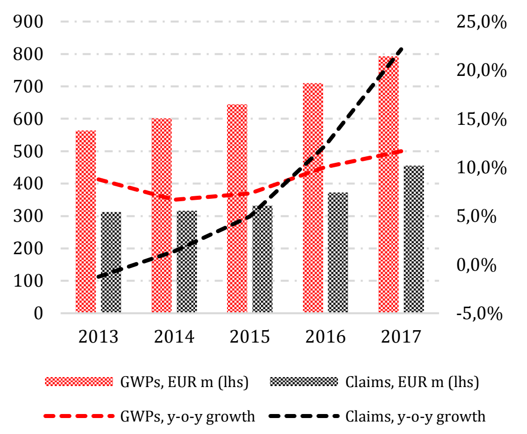
	GWP	GWP growth	Claims	ROE*	ROA*	SCR*
Swedbank	81,1	6,8%	47,6	37,5%	4,3%	176%/ 178%**
If P&C Insurance	69,9	-6,4%	41,8	10,0%	4,9%	207%
ERGO	56,0	6,1%	34,4	2,4%	0,5%	129%/ 181%**

*including operations outside of Estonia

**Non-Life and Life businesses respectively

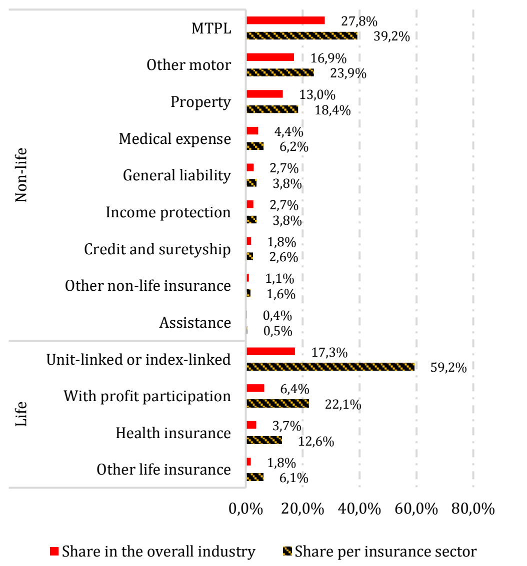
Source: RAEX (Europe) calculations based on data from the annual reports and Statistics Estonia

Graph 3.48: LT – GWPs vs Claims



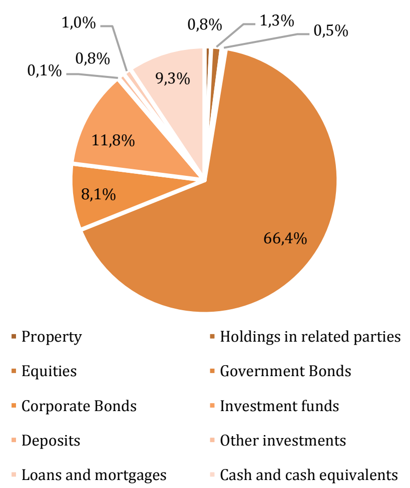
Source: RAEX (Europe) calculations based on data from the Bank of Lithuania

Graph 3.49: LT – Types of insurance, 2017



Source: RAEX (Europe) calculations based on data from the Bank of Lithuania

Graph 3.50: LT – Investment allocation, 3Q 2017



Source: RAEX (Europe) calculations based on data from EIOPA

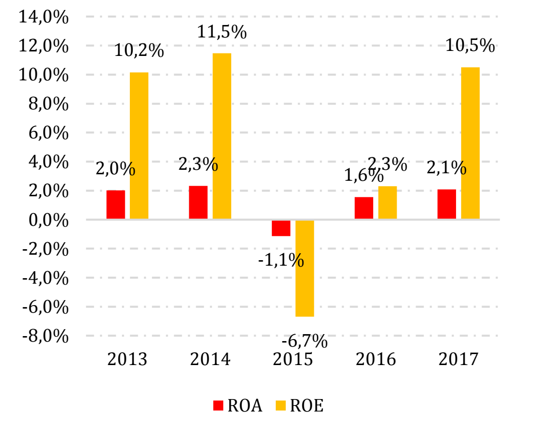
3.7 LITHUANIA

Lithuania, in line with its Baltic peers, presented a solid economic performance in 2017, as real GDP grew by 3,8%, the highest figure since 2011. The increase was mainly caused by private consumption and a favorable external environment which propelled exports. The unemployment rate in the country continued its downward trend and was at 7,1% in 2017. However, inflation had a steep increase in 2017 when it posted a figure of 3,8%, around 2p.p. higher than a year before on the back of higher world oil and food prices but also increased wages in the country. The Lithuanian 10Y bond yield stands at 1,15% increasing slightly for the past six months. Going forward, we expect the economy to perform strongly as a result of increased external demand and investment, in line with its Baltic peers. However, in order for the growth to be sustained in the long-term and to avoid increase exposure to external shocks, the country will need to follow through with its proposed reforms. Given the above, we consider that the **operating environment** of Lithuania is slightly favorable for the insurers operating in the country.

The Lithuanian **insurance market** development is in line with the Baltic peers with a density figure of USD 336 and a penetration reading of 1,9% in 2017. However, these figures are quite low as compared to the overall figure for European countries indicating the insurance market to be rather undeveloped (see tables 4.1 and 4.2). As of the end of 2017 as much as 8 life insurers and 13 non-life insurers (including foreign branches) were operating in Lithuania. The ratio of life to non-life insurance in the domestic market is 29:71, another sign of the underdevelopment of the market, especially the use of life insurance products. The market, however, has been increasing consistently over the past years. In 2017 GWPs grew by 12% averaging an increase of 8,3% for the past six years propelled by a very strong hike in the non-life insurance sector. However, claims grew by 22,1% in 2017, a much higher pace than premiums given the elevated number of expired life insurance contracts (see graph 3.48). Despite a high concentration on the top insurer (Lietuvos draudimas) accounting for 22% of the whole market, the rest is considered as well-diversified for the size of the Lithuanian market. By the end of 2017 the top-5 had a market share of 58% while the top-10 had a share of 85% in terms of GWPs (see table 4.18). As mentioned, the largest company was Lietuvos draudimas with 22% of the market followed by BTA Insurance Company SE with 11% and Ergo with 10% of the total GWPs, all of these companies offer non-life insurance products exclusively. The main insurance segment in Lithuania are MTPL accounting for 27,8% of the market followed by unit-linked products with a share of 17,3% and other motor insurance with 16,9% (see graph 3.49).

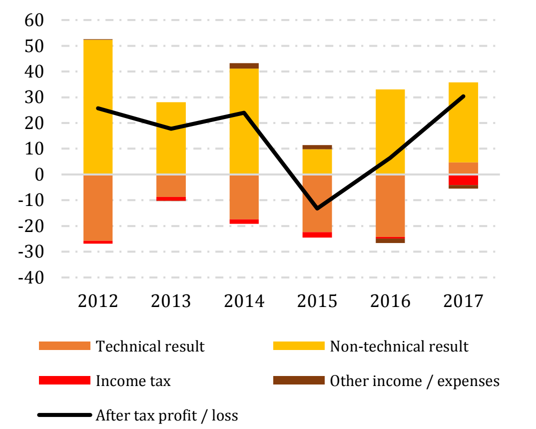
The **investment environment** in Lithuania is similar to the other Eastern European countries. Low yields in government bonds have caused

Graph 3.51: LT – Profitability metrics



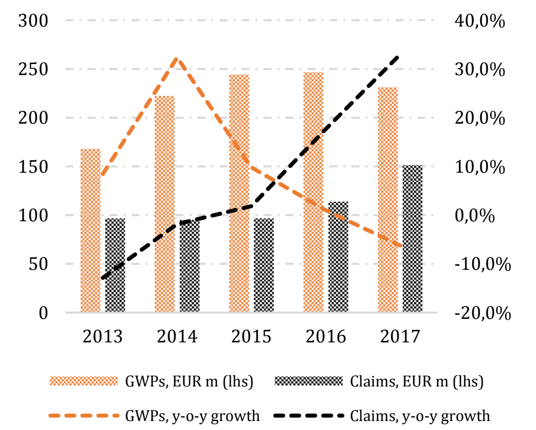
Source: RAEX (Europe) calculations based on data from the Bank of Lithuania

Graph 3.52: LT – P&L composition, EUR m



Source: RAEX (Europe) calculations based on data from the Bank of Lithuania

Graph 3.53: LT – GWPs vs Claims: Life



Source: RAEX (Europe) calculations based on data from the Bank of Lithuania

investment returns to be subdued. However, financial income has remained positive, especially in the life insurance sector. As of 3Q 2017 around 66% of the investments were allocated in government securities followed by investments in investment funds with a share of 11,8% (see graph 3.50). This shows a conservative approach by the insurers in order to reduce investment risk and, thus, capital requirements. The positive financial results as compared to peer countries could be attributed to investments in lower rated government securities, as well as to increase in non-fixed income investments.

The **profitability** of the Lithuanian insurance market was strong in 2017 posting ROA and ROE figures of 2,1% and 10,5% respectively (see graph 3.51). After adverse technical results in 2015 and 2016, it turned to positive territory in 2017 driving, alongside positive non-technical result the increase in net profit (see graph 3.52).

Market **capitalization** in Lithuania is favorable. The solvency capital requirement for non-life insurers was at 140% and stood at 250% for life insurers by the end of 2017.

As in other countries, some **M&A activity** was recorded in Lithuania. As it has been mentioned in the Latvia's section, Gjensidige Group merged its companies in the Baltics and has its headquarters in Lithuania. Also, mentioned previously, the Vienna Insurance Group AG merger of its subsidiaries InterRisk and BTA Baltic also affected Lithuania as the Lithuanian branch of InterRisk joined the group.

3.7.1 Life Insurance

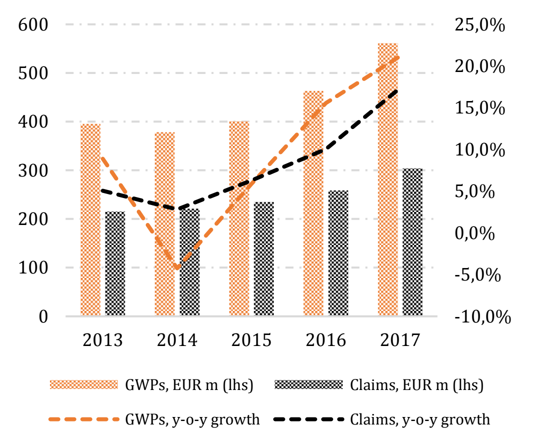
The life insurance market in Lithuania has been going on a downward trend after growing consistently between 2013 and 2015; in 2017, it decreased by 6,2% partly because of the imposed limits on deductible pension contributions. The contraction of GWPs was led by a 12,6% decline in unit-linked insurance products. On the other hand, claims increased substantially in 2017 when they grew by 33% as a result of many expiring contracts (see graph 3.53), especially in the insurance with profits segment and unit-linked products. The major insurance segments in the life insurance sector as of 2017 were unit-linked insurance products with a share of 59,2% if the total GWPs in the life insurance market followed by insurance with profit participation (which includes annuities and term insurance) with a share of 22,1% and health insurance accounting for 12,6% of the premiums (see graph 3.49).

As seen by the life-to-non-life insurance ratio, the life insurance sector in Lithuania lags major European countries. Despite the decrease in the life insurance premiums written in 2017, we expect the life sector to resume growth in 2018 given the fact the economy and wages are growing. Moreover, part of the contraction of the market in 2017 was due to a one-off effect, namely the expiring contracts written before 2003. However, growth could be hurt as a result of restrictions on tax relief for policyholders. Given new laws on the regulation of unit-linked products, we expect this segment to increase further as transparency and simplification of the products has been enhanced.

3.7.2 Non-life Insurance

GWPs of the non-life insurance sector have been growing exponentially for the past three years. In 2017 alone this sector grew by 21,2% driven mostly by a solid increase in MTPL insurance premiums and other vehicle insurance as a result of an increase of around 23% in total new vehicles in 2017. In regards to claims paid, these also presented an important increase of 17,4% driven by a hike of 39% in property insurance due to two very large events occurring earlier in 2017 (see graph 3.54). The growth in claims was also supported by an increase of 14% in MTPL claims which, as a result, also affected the MTPL premium prices. Major non-life insurance segments in Lithuania are as follows: MTPL with 39,2% of GWPs, other motor insurance accounting for 23,9% and property insurance with a share of 18,4% of the market (see graph 3.49). Underwriting results for the non-life insurance sector improved in 2017. After posting combined ratios above 100% in 2015 and 2016, the combined ratio was around 97% in 2017 with a loss ratio of 63% and an expense ratio of around 34% (see graph 3.55).

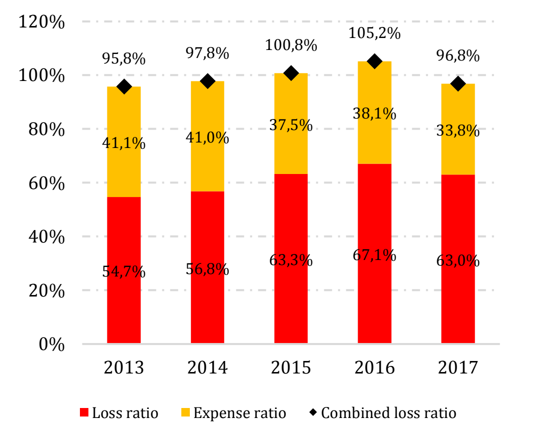
Graph 3.54: LT – GWPs vs Claims: Non-life



Source: RAEX (Europe) calculations based on data from the Bank of Lithuania

Given positive economic conditions in the country, we expect the non-life insurance sector to continue in an upward trend. The first four months of 2018 have seen a continued increase in new car registrations in the country which suggest that both segments of vehicle insurance (MTPL and CASCO) will continue to growth solid: both segments together represent 63% of the market. Moreover, we anticipate the non-life insurance market profitability to depend in a few companies given the highly concentrated non-life insurance market.

Graph 3.55: LT – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from the Bank of Lithuania

Market leaders

Table 3.7: Market leaders' indicators for 2016, EUR m

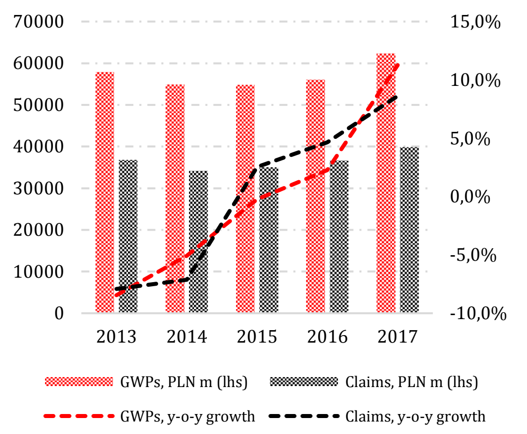
	GWP	GWP growth	Claims	ROE*	ROA*	SCR*
Lietuvos draudimas	136,6	7,4%	75,2	10,9%	3,2%	200%
BTA	67,7	24,3%	36,2	5,7%	1,2%	127%
ERGO	90,7	13,8%	31,8	2,4%	0,5%	129%/ 181%**

*including operations outside of Lithuania

**Non-Life and Life businesses respectively

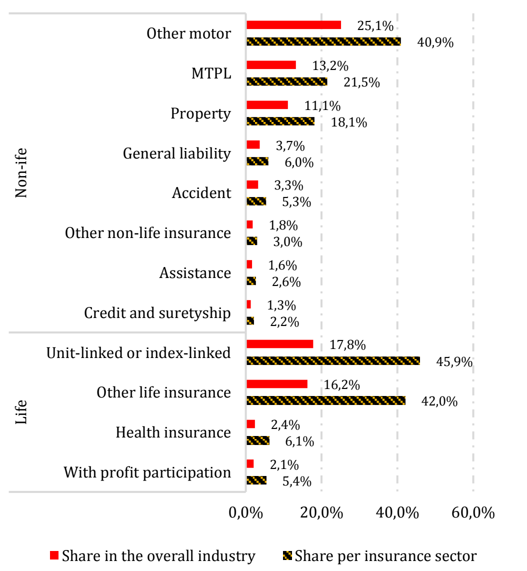
Source: RAEX (Europe) calculations based on data from the annual reports and the Bank of Lithuania

Graph 3.56: PL – GWPs vs Claims



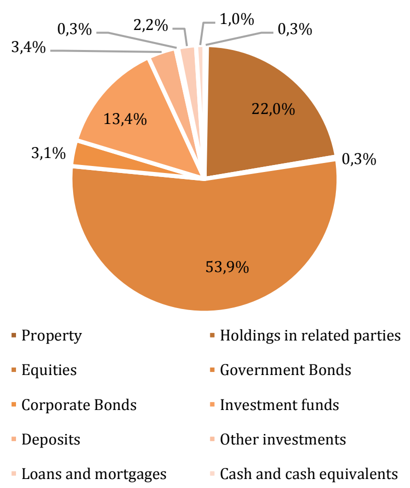
Source: RAEX (Europe) calculations based on data from the Polish Insurance Association

Graph 3.57: PL – Types of insurance, 2H 2017



Source: RAEX (Europe) calculations based on data from the Polish Insurance Association

Graph 3.58: PL – Investment allocation, 3Q 2017



Source: RAEX (Europe) calculations based on data from EIOPA

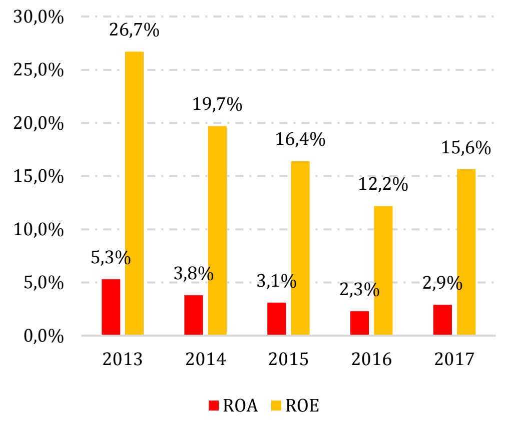
3.8 POLAND

The Polish economy continues to grow faster than the economies of its regional peers. The real GDP growth rate has accelerated to 4,6% in 2017 and is expected to remain strong in 2018, reflecting yielding institutional reforms and smooth integration into the European economic and financial system supported by accommodative monetary and fiscal policies, as well as substantial EU transfers. However, we expect the longer-term growth to be rather subdued, as the economy is already operating above potential as shown by record low and steadily decreasing unemployment rate at 4,9% in 2017, as well as due to anticipated significant demographic and structural challenges. Inflationary pressures have considerably accelerated and the CPI growth stood at 2,1% in 2017 (the National Bank of Poland (NBP) target level was 2,5%), and is expected to grow further to 2,9% in 2018. Nevertheless, the NBP has recently kept the reference rate unchanged for the third consecutive year at a record low level of 1,5%. All of these factors show a slightly favorable **operating environment** for the insurance companies operating in the country in the mid-term, however a lot will depend on how well the Polish authorities will be able to coordinate the monetary and fiscal policies, as well as address demographic and structural constraints.

The Polish **insurance market** is moderately developed, as shown by the penetration and density at 3,1% and USD 435 in 2017 respectively, standing at around the average of the selected CCE country peers (see tables 4.1 and 4.2). As of 1Q 2018 there were 61 insurance companies in Poland, of which 27 were life insurers, 33 non-life insurers and one was a reinsurance company. After a strong downturn in 2013 and 2014, followed by a stagnant growth in 2015 and 2016, the GWP has shown a rapid growth of 11,3% y-o-y reaching PLN 62 bn in 2017, which was the highest among the CEE peers (see tables 4.3 and 4.4). However, at the same time, gross claims grew by 8,6% y-o-y up to PLN 40 bn (around EUR 9,5 bn) in 2017; one of the highest compared to CEE peers (see tables 4.9 and 4.10), outpacing the strong increase in GWP (see graph 3.56). The insurance sector concentration in the top-5 and top-10 companies was 61% and 79% respectively in 2017 where the three largest companies were PZU, WARTA and ERGO HESTIA with 33,7%, 9,5% and 9,4% of the market share respectively. The concentration remained rather stable and low compared to the country's CEE peers. The three main types of insurance in the market as of 2H 2017 were other motor insurance (25,1% market share), unit-linked life insurance (17,8% market share) and other life insurance (16,2% market share) (see graph 3.57). MTPL insurance type drove the market growth having shown a positive dynamic of 45,9% y-o-y in June 2017.

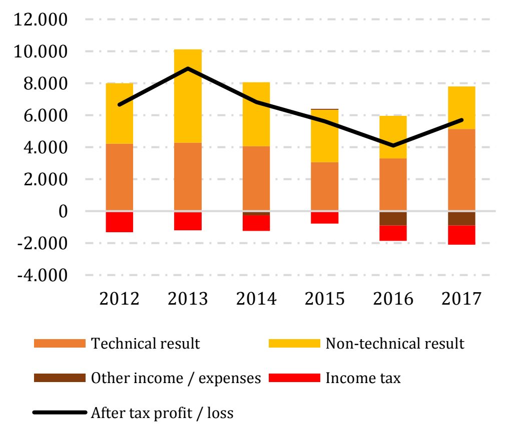
The **investment environment** continues to be characterized by low yield environment in the major bonds. Polish insurers invested around 90% of

Graph 3.59: PL – Profitability metrics



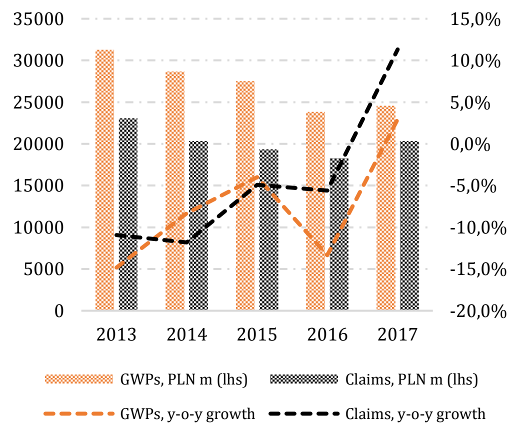
Source: RAEX (Europe) calculations based on data from the Polish Insurance Association

Graph 3.60: PL – P&L composition, PLN m



Source: RAEX (Europe) calculations based on data from the Polish Insurance Association

Graph 3.61: PL – GWPs vs Claims: Life



Source: RAEX (Europe) calculations based on data from the Polish Insurance Association

their funds in the domestic market. As of 2017 around 57% of the investments of Polish insurers were allocated to the fixed-income securities, most of which were government bonds (see graph 3.58). Such allocation of investment funds secures cash flows and stabilizes capitalization metrics, since the insurance operating currency and the investment income currency are the same (PLN). Given the recent sanction-led uncertainty around Russia and Turkey, the Polish debt, thanks to the still low-inflationary environment and cooled political tensions in the country, found some prominence amongst the investment community, which may support maintenance of the low yield environment in the mid-term.

Profitability of the Polish insurance sector has been on a decreasing trend since 2013, however has shown some recovery, with ROA and ROE increasing up to 2,9% and 15,6% respectively in 2017 (see graph 3.59). The positive dynamic has been driven by an increase in technical account, along with lower, but still positive investment returns (see graph 3.60).

The Polish insurers have favorable **capitalization** metrics as indicated by high solvency ratios of the Life and Non-life sectors at 328% and 251% in 2Q 2017 respectively. All entities of the insurance sector met the solvency capital requirement, hence the stability of the sector was not at risk. Those entities, who did not have sufficient own funds in order to cover SCR and MCR, increased them by capital injection or subordinated liabilities.

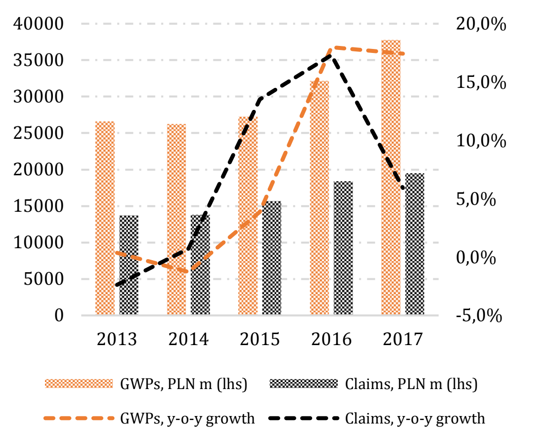
In regard to **M&A activity**, as of end-September 2016 Liberty Ubezpieczenia became part of the AXA Group. Additionally, the US-based UNUM has recently agreed to acquire the Polish life insurer PRAMERICA Zycie TuiR from a subsidiary of Prudential Financial.

3.8.1 Life Insurance

The life insurance sector's GWP has increased by 3% while gross claims grew by 11,3% y-o-y in 2017 (see graph 3.61). Unit-linked insurance was by far the main life insurance product in June 2017, at 46% of the life segment, followed by medical insurance, representing 6,1% of the segment in the same period (see graph 3.57). We attribute the segment growth mainly to the rise of premiums in unit-linked insurance, which however could not compensate the hike in claims due. We recorded the net claims ratio to be at 82,8% and the expense ratio at 22,7% for a combined loss ratio of 105,5% in 2017. The overall profitability of the sector improved substantially.

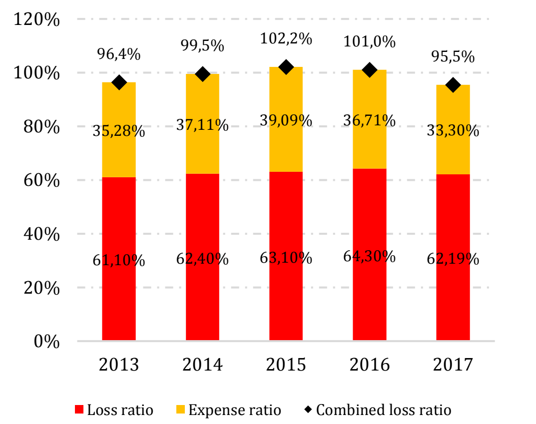
In our view, the dominance of unit-linked products contributes to the capital requirement and investment risk reduction for the insurers. However, as in all European markets, the still low-interest rate environment will prevent high investment returns on these products for policyholders.

Graph 3.62: PL – GWPs vs Claims: Non-life



Source: RAEX (Europe) calculations based on data from the Polish Insurance Association

Graph 3.63: PL – Technical result: Non-life



Source: RAEX (Europe) calculations based on data from the Polish Insurance Association

3.8.2 Non-life Insurance

The non-life insurance sector's GWP has been growing for the third consecutive year, increasing by 17,4% in 2017, while gross claims grew only by 5,9% in the same period (see graph 3.62). The growth of the segment was led by the MTPL with premiums growing at 46% y-o-y in June 2017. As of 1H 2017, the main products were other motor insurance with a market share of 40,9% followed by MTPL accounting for 21,5 of the market and property insurance with 18,1 of the premiums written (see graph 3.57). We recorded loss ratios for of the non-life insurance sector at 62,2% in 2017 alongside an expense ratio of 33,3% for a total combined ratio of 95,5%, the best reading for the past five years (see graph 3.63).

We expect a moderate growth of the non-life segment, which will continue to be dominated by top-insurers concentrated in the MTPL segment. Overall, we expect the non-life sector to be profitable with combined ratios below 100%.

Market leaders

Table 3.8: Market leaders' indicators for 2016, EUR m

	GWP	GWP growth	Claims	ROE*	ROA*	SCR*
PZU	4316,7	11,3%	2822,1	15,0%	2,1%	268%[2]
ERGO Hestia	1189,7	-3,2%	575,7	5,8%/ 5,7%**	1,0%/ 0,4%**	131,1%/ 258,7%**
WARTA	1114,6	-7,1%	745,1	11,9%	2,4%	166,5%/ 283,4%**

*including operations outside of Poland

**Non-Life and Life businesses respectively

Source: RAEX (Europe) calculations based on data from the annual reports and Polish Insurance Association

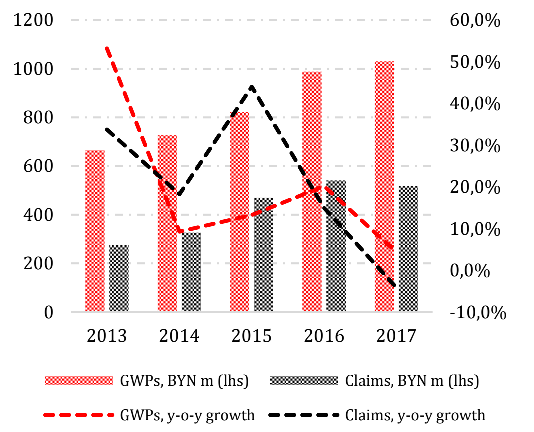
[2] Ratio of eligible own funds to the consolidated group SCR (excluding own funds from other financial sectors)

3.9 BELARUS

The economy of Belarus has recently gone through a two-year recession ending in 2017, during which the economy managed to grow at the pace of 2,4%. The positive dynamic was driven by the recovery of Russia's economy, restoring of oil refining in Belarusian factories and increase in internal consumption. Official unemployment stood historically very low at just above 1% in 2017. Furthermore, the inflation rate has gone down to a historical low of 4,6% in 2017, staying well below the target for the year of 9%, which led to a series of key rate cuts, with the latest in February 2018 down to 10,5%. Albeit above dynamics, the Agency expects the Belarusian inflation rate to stay around its target of 6% in 2018. All of these factors give signs of a probable recovery of the country's insurers **operating environment**; however, the current stance is slightly unfavorable given large market restrictions.

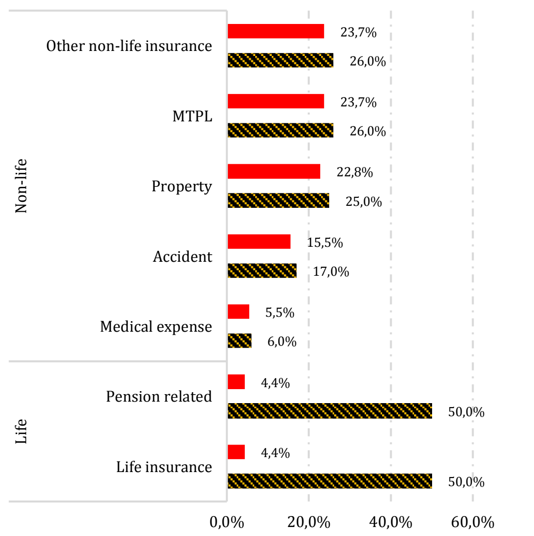
The country's **insurance market** is largely undeveloped with insurance penetration and density at 1% and USD 55 in 2017 respectively, both figures indicate the market to be one of the least developed amongst the selected CEE country peers (see tables 4.1 and 4.2). As of end-2017 there were 16 functioning insurance companies in the market, out of which 2 were life insurers and 14 non-life insurers. Gross written premiums of the functioning insurance companies stood at BYN 1 bn in 2017. The GWP growth rate of these insurance companies has been rather high and volatile and on average stood at 20% since 2013, however in 2017 it grew by only 4,4% y-o-y in 2017 which may indicate a slowdown in the market's GWP accumulation rally. However claims have grown at an average rate of 21% in the same period outpacing the respective increase in GWP, but decreased by 4,1% y-o-y in 2017 (see graph 3.64). The insurance sector concertation in the top-5 and top-10 companies was 77% and 94% in 2017 respectively, making the sector one of the most concentrated amongst the selected peers (see table 4.18), where the three largest companies in the sector were Belgosstrakh, Eximgarant and Belneftestrakh with 47%, 8% and 8% of the market share respectively (all are from non-life segment). The three main types of insurance in the market as of 2016 were MTPL insurance (23,7% market share), property insurance (22,8% market share) and accident insurance (15,5% market share) (see graph 3.65). Even though, life-insurance was the sector with the highest growth rate in 2016, with GWPs increasing by 49% y-o-y in 2016, it is not very representative if the whole market as it only accounts for 8,8% of total written premiums. The market is also characterized by a quite limited competition due to unequal rights of state-owned and private insurance companies, as the current insurance law does not allow the private insurance companies to carry out compulsory insurance mandates, which constituted around 43% of the market in 2017. Additionally, SOEs stay out of the scope for private insurance companies,

Graph 3.64: BY – GWPs vs Claims



Source: RAEX (Europe) calculations based on data from the Ministry of Finance of the Republic of Belarus

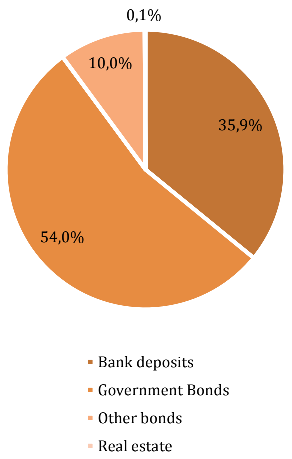
Graph 3.65: BY – Types of insurance, 2016



Source: RAEX (Europe) calculations based on data from the Belarusian Insurance Association which leave the state-owned insurance companies with a natural competitive advantage as well as price advantage.

In 2016, 54% of insurance reserves were allocated in government bonds and 36% in bank deposits (see graph 3.66). Despite a rather high yield environment and relatively high real interest rate (at around 10,2% in 2017), the Belarusian **investment environment** and the quality of the local insurance companies' investment portfolios remain limited due to a low amount and quality of financial instruments in the market and overall poor development of the national financial market, widespread direct lending and subdued performance of the bond index over the last three years.

Graph 3.66: BY – Investment allocation, 2016

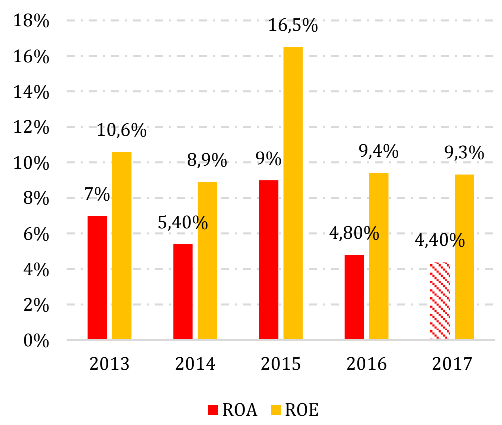


Source: RAEX (Europe) calculations based on data from the National Bank of the Republic of Belarus

In regard to **profitability** we observed average levels of income in the Belarusian insurance sector in the past five years. ROA and ROE averaged at 7,28% and 12,6% in 2012-2016, however decreased down to 4,8% and 9,4% respectively in 2016. The negative dynamic was mainly driven by the recent BYR unfavorable FX rate volatility. In 2017, ROE stood almost unchanged and we expect ROA to have followed the same trend (see graph 3.67).

The regulation environment of Belarusian insurance market will be to a large extent shaped by the newly introduced "Strategy of developing financial market in 2016-2020", which among other things prioritizes liberalization of the country's insurance market, as well as removal of existing restrictions to the privately owned insurance companies.

Graph 3.67: BY – Profitability metrics



Source: RAEX (Europe) calculations based on data from the National Bank of the Republic of Belarus
*** ROA for 2017 is projected**

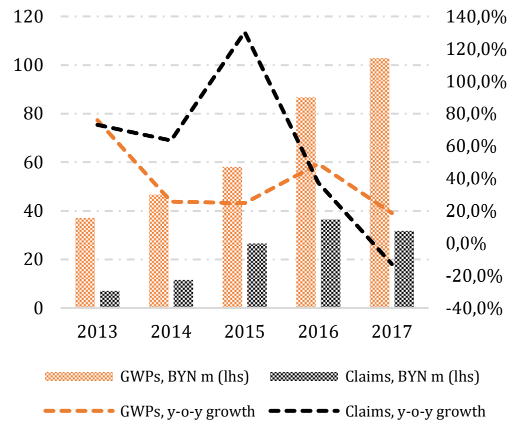
Belarus has not yet adopted the Solvency II directive, hence insurance companies are not obliged to calculate SCR and MCR. The **capitalization** is measured by the adequacy of own capital coefficient of the Belarusian insurance sector which was at 133% in 2016. The metric had been on a negative trend for the past three years; however, it remained relatively high, which indicates availability of additional sources of liability coverage in an event of insufficiency of insurance reserves.

In regard to **M&A activity**, the Belarusian insurance market has gone through a significant consolidation procedure in recent years with the sector shrinking more than by half (in terms of active insurers) down to 16 insurance companies as of end-2017. Since the beginning of 2017 B&B Insurance, one of the oldest country's insurers, went out of business, another three insurers had their licenses revoked or started the liquidation process throughout the year.

3.9.1 Life Insurance

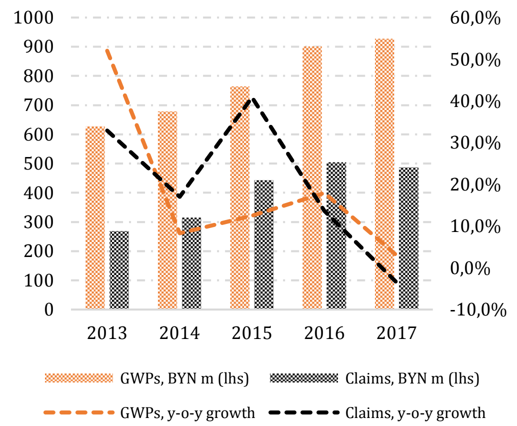
The life insurance segment's GWP increased by around 19% y-o-y in 2017, while gross claims decreased by around 13% y-o-y in the same period (see graph 3.68). However the segment remained low scale, represented by only two companies: state-owned Stravita and private Priorlife, accounting together for just below 10% of the total insurance market

Graph 3.68: BY – GWPs vs Claims: Life



Source: RAEX (Europe) calculations based on data from the Ministry of Finance of the Republic of Belarus

Graph 3.69: BY – GWPs vs Claims: Non-life



Source: RAEX (Europe) calculations based on data from the Ministry of Finance of the Republic of Belarus

GWP. The segment's gross claims ratio stood at 31% in 2017, however net profit of the life segment went significantly down by 31% y-o-y in the same period. The main life product was pension related insurance representing 50% of the market in 2016 (see graph 3.65). We attribute the growth in the life segment mainly to the aforementioned segment which grew at a pace of 122% y-o-y in 2016.

In our view, despite the recent positive dynamics, the life segment remains relatively out of demand in the Belarusian market. Nevertheless, the development capacity of the segment is high due to increasing financial literacy as well as some fiscal incentives and could be even more developed if the existing legislation did not hamper the development of inter-segment competition.

3.9.2 Non-life Insurance

The overall increase in non-life insurance GWPs in 2017 was at 3% whereas the sector has been steadily growing for the past years, additionally claims decreased by around 4% in the same period (see graph 3.69). The segment dominates the country's insurance market with more than 90% of total insurance GWP. The gross claims ratio stood at 52% in 2017 and the net profit of the segment went significantly up by 44% y-o-y in the same period. The largest non-life sub-segments were MTPL accounting for 26% followed by property insurance with 25% of the overall non-life segment (see graph 3.65).

We anticipate a continued moderate growth in the non-life sector on the backdrop of stabilizing local and international economic environment. Further development of the segment and insurance market as a whole will depend on how well and effective are the sector liberalization plans realized.

Market leaders

Table 3.9: Market leaders' indicators for 2016, EUR m

	GWP	GWP growth	Claims	ROE	ROA
Belgosstrakh	233,7	17,9%	128,0	5,4%	2,9%
TASK	35,8	12,7%	23,8	23,7%	8,0%
Beleximgarant	34,3	29,3%	14,9	3,8%	2,9%

Source: RAEX (Europe) calculations based on data from the annual reports and Ministry of Finance of the Republic of Belarus

4. PEER COMPARISON

Table 4.1: Density, USD (gross written premiums per capita)

	2012	2013	2014	2015	2016	2017
Hungary	336,5	356,6	359,7	300,3	316,7	376,5
Czech Republic	732,9	746,8	712,0	574,0	554,9	660,8
Slovakia	507,8	541,6	542,9	433,9	365,6	399,1
Slovenia	1.202,0	1.209,0	1.196,2	1.011,4	1.027,6	1.182,8
Latvia	197,9	213,2	212,6	208,2	211,8	284,8
Estonia	295,6	331,2	316,0	305,3	314,6	391,4
Lithuania	228,7	262,5	250,0	246,3	263,3	336,5
Poland	509,8	480,9	457,9	382,5	374,3	434,7
Belarus	53,5	73,8	64,7	46,7	52,3	55,3

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.2: Penetration (gross written premiums to GDP)

	2012	2013	2014	2015	2016	2017
Hungary	2,6%	2,6%	2,5%	2,4%	2,5%	2,6%
Czech Republic	3,7%	3,8%	3,6%	3,2%	3,0%	3,0%
Slovakia	2,9%	3,0%	2,9%	2,7%	2,5%	2,6%
Slovenia	5,3%	5,2%	4,9%	4,8%	4,7%	4,8%
Latvia	1,4%	1,4%	1,5%	1,5%	1,6%	1,7%
Estonia	1,7%	1,7%	1,7%	1,8%	1,8%	1,9%
Lithuania	1,6%	1,6%	1,6%	1,7%	1,8%	1,9%
Poland	3,9%	3,5%	3,2%	3,0%	3,0%	3,1%
Belarus	0,8%	1,0%	0,9%	0,9%	1,0%	1,0%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.3: Total GWPs, EUR m

	2012	2013	2014	2015	2016	2017
Hungary	2.580	2.588	2.756	2.736	2.882	3.020
Czech Republic	6.004	5.730	5.746	5.679	5.506	6.002
Slovakia	2.037	2.082	2.106	2.020	1.984	2.167
Slovenia	1.488	1.424	1.419	1.911	1.942	2.038
Latvia	307	313	349	373	392	465
Estonia	297	317	341	361	388	427
Lithuania	518	563	601	645	710	793
Poland	15.222	13.915	13.238	12.569	12.995	14.943
Belarus	383	508	505	405	483	438

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.4: Total GWPs, y-o-y growth in Local Currency

	2012	2013	2014	2015	2016	2017
Hungary	-6,7%	5,4%	4,0%	2,1%	4,0%	7,0%
Czech Republic	-1,0%	1,9%	0,9%	-2,8%	-3,1%	2,5%
Slovakia	-0,1%	2,2%	1,1%	-4,1%	-1,8%	9,3%
Slovenia	-2,8%	-4,3%	-0,3%	34,7%	1,6%	4,9%
Latvia	12,3%	2,1%	11,4%	6,8%	5,2%	18,7%
Estonia	5,1%	6,8%	7,5%	5,9%	7,4%	10,1%
Lithuania	5,1%	8,8%	6,7%	7,3%	10,0%	11,7%
Poland	5,7%	-8,5%	-5,1%	-0,2%	2,3%	11,3%
Belarus	83,4%	53,2%	9,3%	13,3%	20,1%	4,4%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.5: Life GWPs, EUR m

	2012	2013	2014	2015	2016	2017
Hungary	1.367	1.409	1.510	1.422	1.428	1.468
Czech Republic	2.817	2.619	2.590	2.310	2.158	2.209
Slovakia	1.112	1.170	1.167	1.054	960	1.073
Slovenia	512	498	505	519	463	539
Latvia	62	68	82	90	97	115
Estonia	67	73	80	82	86	91
Lithuania	155	168	223	244	247	231
Poland	8.839	7.518	6.909	6.313	5.532	5.886
Belarus	19	28	32	29	42	44

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.6: Life GWPs, y-o-y growth in Local Currency

	2012	2013	2014	2015	2016	2017
Hungary	-9,4%	8,3%	4,7%	-3,2%	-0,8%	5,0%
Czech Republic	0,1%	-0,7%	-0,5%	-12,3%	-6,7%	-3,8%
Slovakia	1,7%	5,2%	-0,3%	-9,6%	-8,9%	11,8%
Slovenia	0,0%	-2,9%	1,4%	2,8%	-10,7%	16,4%
Latvia	3,3%	10,0%	21,5%	9,0%	8,3%	18,3%
Estonia	0,9%	9,4%	9,3%	3,6%	3,9%	6,5%
Lithuania	1,3%	8,5%	32,4%	9,8%	1,0%	-6,2%
Poland	10,1%	-14,8%	-8,3%	-4,0%	-13,3%	3,0%
Belarus	95,8%	76,0%	25,6%	24,7%	48,9%	18,6%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.7: Non-life GWPs, EUR m

	2012	2013	2014	2015	2016	2017
Hungary	1.212	1.178	1.244	1.314	1.454	1.552
Czech Republic	3.188	3.110	3.156	3.369	3.347	3.793
Slovakia	925	913	939	965	1.024	1.094
Slovenia	975	926	914	1.392	1.479	1.498
Latvia	245	245	267	283	295	350
Estonia	230	244	261	279	302	336
Lithuania	363	395	379	401	463	561
Poland	6.382	6.396	6.329	6.256	7.463	9.057
Belarus	364	480	472	376	441	394

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.8: Non-life GWPs, y-o-y growth in Local Currency

	2012	2013	2014	2015	2016	2017
Hungary	-3,4%	2,1%	3,2%	8,6%	9,3%	9,0%
Czech Republic	-1,8%	4,2%	2,0%	5,0%	-0,7%	6,5%
Slovakia	-2,3%	-1,3%	2,9%	2,8%	6,0%	6,9%
Slovenia	-4,2%	-5,0%	-1,3%	52,2%	6,3%	1,3%
Latvia	14,8%	0,1%	8,6%	6,1%	4,2%	18,8%
Estonia	6,4%	6,1%	7,0%	6,7%	8,4%	11,1%
Lithuania	6,8%	8,9%	-4,2%	5,9%	15,6%	21,2%
Poland	0,1%	0,4%	-1,3%	3,9%	18,0%	17,4%
Belarus	82,8%	52,0%	8,3%	12,5%	17,9%	3,0%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.9: Total Claims, EUR m

	2012	2013	2014	2015	2016	2017
Hungary	1.939	1.819	1.695	1.699	1.744	1.876
Czech Republic	3.447	3.682	3.821	3.690	3.586	3.781
Slovakia	1.176	1.208	1.191	1.155	1.160	1.197
Slovenia	900	911	891	1.322	1.298	1.420
Latvia	170	184	198	218	247	282
Estonia	171	183	190	207	232	240
Lithuania	316	312	316	332	373	444
Poland	9.624	8.849	8.236	8.037	8.505	9.548
Belarus	182	211	227	232	264	220

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.10: Total Claims, y-o-y growth in Local Currency

	2012	2013	2014	2015	2016	2017
Hungary	-4,7%	-1,5%	-8,9%	3,0%	1,4%	9,8%
Czech Republic	3,5%	14,1%	4,4%	-5,1%	-2,9%	-0,9%
Slovakia	0,0%	2,6%	-1,4%	-3,0%	0,4%	3,2%
Slovenia	5,4%	1,2%	-2,1%	48,3%	-1,8%	9,4%
Latvia	8,3%	7,9%	7,6%	10,1%	13,6%	14,1%
Estonia	-4,6%	7,4%	3,5%	9,2%	12,0%	3,3%
Lithuania	0,6%	-1,2%	1,4%	4,9%	12,3%	19,0%
Poland	0,4%	-7,9%	-7,1%	2,6%	4,7%	8,6%
Belarus	54,2%	33,7%	18,2%	44,0%	15,0%	-4,1%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.11: Life Claims, EUR m

	2012	2013	2014	2015	2016	2017
Hungary	1.354	1.230	1.126	1.106	1.108	1.161
Czech Republic	1.814	1.880	2.122	1.894	1.634	1.659
Slovakia	725	738	741	661	659	680
Slovenia	349	362	358	391	355	410
Latvia	35	45	40	45	52	68
Estonia	41	42	41	46	55	58
Lithuania	111	97	95	97	114	151
Poland	6.241	5.552	4.907	4.441	4.240	4.878
Belarus	4	5	8	13	18	14

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.12: Life Claims, y-o-y growth in Local Currency

	2012	2013	2014	2015	2016	2017
Hungary	-1,9%	-4,6%	-10,5%	1,0%	-1,1%	7,1%
Czech Republic	10,3%	10,7%	13,5%	-12,2%	-13,8%	-4,5%
Slovakia	10,0%	1,8%	0,4%	-10,8%	-0,4%	3,3%
Slovenia	21,1%	3,8%	-1,0%	9,1%	-9,2%	15,7%
Latvia	10,5%	25,9%	-10,8%	12,6%	16,2%	31,4%
Estonia	-8,2%	1,4%	-1,5%	11,4%	20,3%	6,0%
Lithuania	18,1%	-12,9%	-1,8%	1,8%	17,7%	33,0%
Poland	-0,6%	-10,9%	-11,8%	-4,9%	-5,6%	11,3%
Belarus	15,5%	73,1%	63,3%	130,4%	37,3%	-12,8%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.13: Non-life Claims, EUR m

	2012	2013	2014	2015	2016	2017
Hungary	585	589	569	592	637	714
Czech Republic	1.633	1.802	1.699	1.795	1.953	2.122
Slovakia	452	470	450	494	501	517
Slovenia	552	549	533	931	943	1.010
Latvia	135	139	158	173	195	213
Estonia	129	142	149	161	177	181
Lithuania	205	215	221	235	259	304
Poland	3.383	3.297	3.329	3.596	4.265	4.670
Belarus	178	206	219	219	247	207

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.14: Non-life Claims, y-o-y growth in Local Currency

	2012	2013	2014	2015	2016	2017
Hungary	-10,7%	5,8%	-5,7%	7,0%	6,2%	14,6%
Czech Republic	-3,1%	17,8%	-5,1%	3,8%	8,7%	2,2%
Slovakia	-12,8%	4,0%	-4,2%	9,9%	1,4%	3,2%
Slovenia	-2,6%	-0,5%	-2,9%	74,6%	1,3%	7,0%
Latvia	7,7%	3,1%	13,4%	9,5%	12,9%	9,4%
Estonia	-3,4%	9,3%	4,9%	8,6%	9,7%	2,5%
Lithuania	-6,8%	5,0%	2,8%	6,3%	10,0%	17,4%
Poland	2,2%	-2,4%	0,7%	13,5%	17,3%	5,9%
Belarus	55,3%	32,9%	17,1%	40,9%	13,7%	-3,5%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.15: ROE

	2012	2013	2014	2015	2016	2017
Hungary	4,96%	11,94%	14,65%	19,63%	19,46%	22,64%
Czech Republic	14,78%	12,91%	7,47%	9,05%	13,12%	10,58%
Slovakia	10,77%	11,41%	12,84%	10,46%	14,45%	14,55%
Slovenia	19,36%	8,78%	10,00%	10,01%	9,84%	8,64%
Latvia	10,91%	6,07%	7,18%	-0,56%	1,40%	10,56%
Estonia	16,50%	5,10%	12,03%	14,60%	13,22%	NA
Lithuania	13,40%	10,15%	11,46%	-6,69%	2,31%	10,50%
Poland	18,10%	26,70%	19,70%	16,40%	12,20%	15,63%
Belarus	17,60%	10,60%	8,90%	16,50%	9,40%	9,33%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.16: ROA

	2012	2013	2014	2015	2016	2017
Hungary	0,56%	1,17%	1,29%	1,79%	1,97%	2,33%
Czech Republic	2,62%	2,23%	1,24%	1,52%	2,17%	1,63%
Slovakia	2,27%	2,31%	2,49%	1,98%	2,71%	2,48%
Slovenia	1,93%	1,65%	2,03%	2,03%	1,99%	1,74%
Latvia	3,18%	1,55%	1,70%	-0,14%	0,33%	2,36%
Estonia	5,20%	1,40%	2,70%	3,30%	3,26%	NA
Lithuania	2,94%	2,02%	2,32%	-1,12%	1,56%	2,08%
Poland	4,10%	5,30%	3,80%	3,10%	2,30%	2,90%
Belarus	10,20%	7,00%	5,40%	9,00%	4,80%	4,4%f

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.17: Non-life insurance loss, expense and combined ratios

	Loss ratio		Expense ratio		Combined ratio	
	2016	2017	2016	2017	2016	2017
Hungary	42,9%	41,6%	51,4%	52,2%	94,3%	93,8%
Czech Republic	29,4%	30,1%	68,5%	67,1%	97,9%	97,2%
Slovakia	42,8%	41,9%	47,6%	49,8%	90,4%	91,7%
Slovenia	23,4%	67,4%	70,0%	22,4%	93,4%	89,8%
Latvia	34,6%	32,2%	68,0%	63,9%	102,6%	96,2%
Estonia	32,2%	31,5%	59,9%	58,5%	92,1%	90,0%
Lithuania	38,1%	33,8%	67,1%	63,0%	105,2%	96,8%
Poland	36,7%	33,3%	64,3%	62,2%	101,0%	95,5%
Belarus	NA	NA	NA	NA	NA	NA

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus

Table 4.18: Concentration in 2017

	Top-5	Top-10
Hungary	57,2%*	81,3%*
Czech Republic	66,8%	89,4%
Slovakia	70,5%	89,9%
Slovenia	77,5%	93,5%
Latvia	56,0%	82,8%
Estonia	63,9%	91,1%
Lithuania	58,1%	84,9%
Poland	61,2%	78,5%
Belarus	77,0%	94,4%

Source: RAEX (Europe) calculations based on data from the IMF, OECD, Hungarian National Bank, Czech National Bank, The National Bank of Slovakia, Slovak Insurance Association, Slovenian Insurance Supervision Agency, Latvian Insurers Association, Statistics Estonia, Polish Insurance Association, National Bank of the Republic of Belarus and Ministry of Finance of the Republic of Belarus
* Hungary data is from 2016